

ECUADOR NORTHERN BORDER DEVELOPMENT
STRATEGIC OBJECTIVE

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ACRONYMS

ACI	Andean Counterdrug Initiative
ADS	Automated Directives System
ARD	Associates in Rural Development, Inc.
CA	Cooperative Agreement
CEPAR	Centro de Estudios de Población y Desarrollo
CG	Consultative Group
CN	Congressional Notification
CONSEP	Consejo Nacional de Control de Sustancias Estupefacientes y Psicotrópicas
CY	Calendar Year
DEA	Drug Enforcement Administration
ECORAE	Instituto para el Ecodesarrollo Regional Amazónico
ELN	Ejército de Liberación Nacional
ESF	Economic Stabilization Fund
EXO	Executive Office
FARC	Fuerzas Revolucionarias de Colombia
FEPP	Fondo Ecuatoriano Popularum Progreso
FOL	Forward Operating Location
FSN	Foreign Service National
FUNDAGRO	Fundación para el Desarrollo Agropecuario
FY	Fiscal Year
GOE	Government of Ecuador
HCL	Hydrochloric Acid
IDB	Inter-American Development Bank
IICA	Instituto Interamericano de Cooperación para la Agricultura
INC	International Narcotics Control
INL	Bureau for International Narcotics and Law Enforcement Affairs
IOM	International Organization for Migration
IQC	Indefinite Quantity Contract
IR	Intermediate Result
ISAMIS	Iglesia San Miguel de Sucumbíos (Catholic Church Social Organization in Lago Agrio)
KAP	Knowledge, Attitudes and Practices
LAC	Latin America and the Caribbean
MIDUVI	Ministerio de Desarrollo Urbano y Vivienda
MILGRP	Military Group (U.S. Embassy)
MPP	Mission Program Plan
NAS	Narcotics Affairs Section
NGO	Non-Governmental Organization
OIG	Office of the Inspector General
OP	Office of Procurement
PAS	Public Affairs Section
PSC	Personal Services Contract
RAISE	Rural and Agricultural Incomes with a Sustainable Environment
RCO	Regional Contracting Office
SO	Strategic Objective
SOAG	Strategic Objective Agreement
SpO	Special Objective
TA	Technical Assistance
TBD	To be determined
UDENOR	Unidad de Desarrollo Norte
UNHCR	United Nations High Commission for Refugees
USAID	United States Agency for International Development
USAID/E	United States Agency for International Development Mission to Ecuador
USG	United States Government

Northern Border Strategic Objective

Geographic Coverage



● Provinces of Intervention

EXECUTIVE SUMMARY

Ecuador's northern border includes six geographically and ethnically diverse provinces with a combined population of about 1.2 million people, including various indigenous groups, *mestizos*, and Ecuadorians of African and European descent. Northern Ecuador shares a 340 kilometer border with Colombia, currently in the throes of a longstanding civil conflict fueled by a well-developed coca-cocaine economy. The Colombian conflict is characterized by escalating violence in the wake of failed peace negotiations that broke off in February 2002, and competition for control of the highly profitable coca/cocaine economy between right wing paramilitary groups and leftist guerillas (both classified as terrorist groups by the USG).

Poverty, historic neglect, and proximity to the key coca/cocaine producing areas in southern Colombia, make the northern border particularly vulnerable to spillover impacts of the narco-fueled Colombian conflict. Spillover threats to Ecuador include: increased trafficking in precursors and narcotics; increased coca cultivation; increased paramilitary-guerilla violence; increased narcotics-related crime; and increased flows of refugees and displaced persons. These threats jeopardize democratic stability in Ecuador and the Andes, and are anathema to USG interests.

To date, the Government of Ecuador (GOE) has been relatively successful in containing these spillover threats. While drug and precursor trafficking is significant, Ecuador is considered more a transshipment than a producer country; coca cultivation is minimal; guerrilla incursions and border violence are real but modest, at present; and the growing numbers of refugees and displaced persons coming into Ecuador have so far been manageable.

The GOE's relative success is at least partially attributable to its "zero tolerance" policy for coca cultivation, significant investments in northern border infrastructure (particularly roads) to facilitate socio-economic development, an increase in police and military resources in the north, and its respect for human rights. The USG has been an important partner in these efforts. Under USG Country Team direction and since December 2000, USAID has supported highly visible, rapid-impact community infrastructure and related activities through the Northern Border Development Program.

This program - designed to show state presence and commitment in the north – is closely coordinated with the GOE's *Unidad del Desarrollo de Norte* (UDENOR) and implemented by the International Organization for Migration (IOM). Program successes include the construction or rehabilitation of 21 potable water systems, 13 bridges, one major sewage system, and a critically important road on the Ecuador-Colombian border. 40 communities and 50,000 local residents have benefited. Program activities are high impact, visible, and responsive to beneficiary needs. They are implemented efficiently, economically, and transparently, with an increasing focus on sustainability. The USAID-OIM-UDENOR team has created a unique niche of confidence, transparency and effectiveness.¹

¹ Final Report, Northern Ecuador Assessment – 2002. Robert Gersony, Consultant, March 2002.

Success in managing the spillover effects to date should not lead to GOE nor USG complacency because continued success is by no means guaranteed. For example, violence is on the increase and refugee applications have jumped dramatically in recent months. As long as drug trafficking and conflict exist in the Colombia, there will continue to be significant uncertainty associated with containing spillover threats, and maintaining democratic stability in Ecuador.

Spillover threats are not just of an external nature; they stem from internal factors as well. First and foremost are the structural factors that keep Ecuador underdeveloped – weak democratic institutions, weak state presence, and the government’s general inability to enforce laws and protect rights, especially in the far reaches of national territory. Coupled with these structural weaknesses are a set of concrete latent factors. For example, and on the Colombian side of the border, escalation of the civil conflict is probable given the campaign platform of the winning presidential candidate, Alvaro Uribe Velez. Such escalation could quickly generate increased violence, crime, and refugee problems for northern Ecuador in the near term. On the Ecuadorian side, dramatic poverty in the north coupled with the worldwide coffee crisis and reduced cross border commerce could trigger a shift to coca cultivation by northern coffee and other farmers. The violent Sucumbíos and Orellana strikes of February 2002 underscore the volatility of the region. More broadly, there is also the real possibility of an Argentina-style national economic crisis if Ecuador does not meet the competitiveness and fiscal challenges posed by dollarization. Such a crisis would further complicate the challenge of containing spillover.

Helping the GOE to address these challenges will require continued resource commitments by the GOE and the USG. Such commitments fully support the USG's Andean Counterdrug Initiative (ACI) and its October 2001 Consultative Group pledge in support of the GOE’s five-year Northern Border Development Plan. The additional resources planned herein will take advantage of the current relative stability in the north to further consolidate successes to date in containing spillover. We believe that a preventative approach now is far preferable to confronting a well-developed, violent, and destabilizing coca/cocaine economy later. One only has to look at Ecuador’s neighbors to see the high costs associated with such a struggle.

The new Strategic Objective ("SO") program proposed herein will consolidate the gains made under the current program and help to further contain the spread of the Andean regional coca/cocaine economy into Ecuador, by assisting the GOE to strengthen state presence and community structures in the north, and by generally fortifying a more licit social, economic, and political environment. Such an environment will be characterized by: supportive inter-governmental relations between national, provincial, and municipal institutions; local state institutions that effectively provide services, enforce the law, and protect citizen rights; communities that democratically engage the state, sanction illicit activity, and resolve conflicts peacefully; and a more competitive local economy that creates licit jobs and income. While we are satisfied with progress made to date through our infrastructure investments, we believe that successful counternarcotics efforts over the longer-term call for focusing program investments on a mutually supportive, integrated, and comprehensive set of activities aimed at strengthening good governance and enabling sustainable economic opportunities. In addition to the above, the proposed SO will:

- increase the life of the current USAID northern border program through FY2006;
- increase funding support for the northern border program from \$18 million to \$78 million
- make explicit the manner in which USAID development efforts and the security, law enforcement, and public awareness efforts of other USG Country Team members complement each other in constraining the spread of the coca/cocaine economy into Ecuador.

Building upon successes to date in containing spillover threats requires a better-coordinated and wider range of interventions than those undertaken to date. USAID will increase the program's geographic reach, and build on and expand infrastructure, local government institutional support, and community strengthening successes achieved to date

Activities funded under the USAID program will include: capital investments and complementary technical assistance to help local governments and communities build and sustain social and productive infrastructure; technical assistance and training to municipal governments and local communities to identify and resolve local development problems democratically; support for small farmers to legalize land holdings; and support to strengthen the competitiveness of existing agricultural and related enterprises in the north, in a context of Ecuador's entry into the Free Trade Agreement of the Americas by 2005. This integrated package of interventions is designed to assist the GOE to prevent spillover by addressing the structural and latent factors mentioned above, namely weak democratic institutions, weak state presence, weak community structures, poverty, and a dearth of licit economic opportunities.

Through this program, USAID will continue partnerships with the GOE, other donors, communities, and the private sector to further development objectives in the north. For example, this program is one of several donor efforts that support the GOE's northern border strategy as developed and coordinated by UDENOR. UDENOR coordinates all development efforts in the northern border and will help ensure that this program complements other donor efforts. Additionally, through productive projects, USAID funds will help small and medium-sized farms to partner with domestic and international firms and markets to increase on-farm jobs and income. These efforts will support the Agency's Global Development Alliance and LAC Rural Prosperity Framework.

The success of USAID's development work and the achievement of the SO is a USG Country Team effort and as such it will depend on the security, law enforcement, and public diplomacy efforts of the MILGRP, the Narcotics Affairs Section (NAS), the Drug Enforcement Administration (DEA), and the Public Affairs Section (PAS). Ensuring Ecuador's territorial integrity in the face of the Colombian conflict, effectively interdicting the narcotics trade to raise the costs of illicit behavior, and educating the Ecuadorian public to bolster its long-term commitment to fighting narcotics are key to program success. The complementarity of these respective country team efforts is made explicit in the strategy.

For example, NAS will continue efforts to improve the professional capabilities, equipment and integrity of police, military and judicial agencies to enable them to more effectively counter illicit drug activities, as well as violent crime generally. Continuing efforts include: training of

mobile counternarcotics police in highway and field interdiction and inspections; construction and improvement of police airport, seaport and highway checkpoints; an improved intelligence data communications network and upgraded radio communications; vehicle procurement; prevention of money laundering; and the interdiction of illicit chemical precursors; support for better military/police collaboration. NAS will also fund training to strengthen the capacity of the police to carry out their investigatory role under Ecuador's new Criminal Procedures Code.

The MILGP will assist the GOE to address the unconventional border conflict by focusing efforts at the operational and strategic levels, the area of highest concern initially. Four major sub-areas of assistance will be included: 1) doctrine changes to include unconventional situations, joint operations and interagency coordination; 2) equipping of public forces to confront the unique security situation along the northern border; 3) strengthening of infrastructure to accommodate the repositioned public forces; and 4) training to confront the new situation on the border—tactics, techniques and procedures.

The USG country team will monitor a set of contextual indicators to gauge success in achieving the strategic objective, including number of hectares under coca cultivation (not to exceed 500 hectares at program completion date), number of refugees, and number of deaths attributable to the Colombian conflict (including narcotics related murders). USAID will be accountable for improvements in indicators measuring the results to which USAID-funded activities contribute, including increases in dollar value of licit economic activities; increases in licit employment; and increases in citizen satisfaction with local governments. The Mission will use data from the GOE's recently completed agricultural census to establish indicator baseline data and set targets for activities as appropriate.

This northern border strategy is a plan based on information available to the Mission at the time of this writing. The plan is informed by the country team's understanding of the reality on the ground in the north and several design assessments and field studies undertaken from November 2001 to March 2002.² Given the fluid situation, rapidly changing circumstances, and uncertainties in the north, the Mission will need to maintain flexibility in the implementation of this plan. Flexibility means the mix/proportion of activities (e.g. infrastructure versus productive projects, or vice versa) could, and very well may, change, depending on progress made or problems encountered over the course of the life of the SO. We believe that this plan, if implemented flexibly, at the MPP-requested resource levels, and in partnership with other players in the north, can assist the GOE to contain the spillover threats from Colombia and the spread of the regional coca/cocaine economy into Ecuador, and strengthen democratic stability in the Andes.

² These include: the University of Pittsburgh Democratic Values Survey, Nov 2001; ARD diagnostic of municipal government capacity Jan/Feb 2002; DAI assessment of productive alternatives in the north, Jan/Feb 2002; Robert Gersony, Northern Ecuador Assessment, Jan-Mar 2002; and the Fondo Ecuatoriano Canadiense, Programam de Desarrollo Regional, Participatory Diagnostic of Three Municipalities in Sucumbios Province, October 2002. In addition to these, the Mission also closely consulted a study of the critical determinants of coca cultivation commissioned by USAID/Colombia and conducted by Dr. Francisco Thoumi.

I. THE DEVELOPMENT PROBLEM, CONTEXT AND RATIONALE

A. Spillover of the Colombian Conflict & Drug Economy into Ecuador

The proposed program seeks to contain the spillover impact of the Colombian conflict, and especially the regional coca/cocaine economy, into Ecuador. Spillover threats to Ecuador include: increased trafficking in precursors and narcotics; increased coca cultivation; increased paramilitary-guerilla violence; increased narcotics-related crime; and increased flows of refugees and displaced persons. All of these problems threaten democratic stability in Ecuador and the Andes, and are anathema to USG interests. While the GOE has been relatively successful in containing spillover, continued and sustained success is by no means guaranteed. USG experience in the Andes suggests that continued investments to constrain spillover in Ecuador on a preventive basis now, offer a less costly alternative than fighting a well-developed coca-cocaine economy later.

1. Spillover of Narcotics Trafficking into Ecuador

Ecuador is already a significant actor in the world's illicit coca/cocaine economy. Ecuador shares porous borders with two of the world's largest narcotics producers - Peru and Colombia. Armed violence on the Colombian side of the border renders border control and interdiction especially difficult. While not yet a significant producer of coca - the raw material for cocaine - Ecuador is a major transit country for drugs and precursor chemicals. Coca paste and base enter the country from eastern Colombia and exit again to western Colombia for refinement. Cocaine HCL and heroin from Colombia and Peru are carried to Ecuador's ports for international distribution in volumes ranging from ingested individual loads of a few hundred grams, to multi-

ton sea shipments. Seizures of cocaine hydrochloride increased from 1,716 kilograms in FY 2000 to over 10,000 kg for the period January through October 2001. The recent discovery of two cocaine HCL labs near Quito suggests that domestic processing may be on the rise.

Ecuador's geographic disadvantage, coupled with weak democratic institutions, a poorly regulated financial system, undependable entry and exit controls, and poverty, make it particularly vulnerable to drug smuggling, money laundering, corruption, and related violence. These are a significant threat to Ecuador's fragile democracy and Andean regional stability.

2. Spillover of Coca Cultivation into Ecuador

Currently, the USG estimates that there are less than 500 hectares of coca in Ecuador. During the mid-1980s coca cultivation was initiated in Sucumbíos to supply cocaine laboratories in Colombia's Putumayo region. These efforts however, were abruptly halted by the Ecuadorian military. Since then, "a strict prohibition has been vigorously enforced by a vigilant Ecuadorian army" (Gersony, March 2002). While these successes are encouraging, dramatic and growing poverty levels in Ecuador coupled with cultivation and production technologies readily available across the San Miguel River in Colombia's coca fields, will continue to make the lucrative profits offered by the illicit coca cultivation alluring to rural families.

The population in the north is predominantly rural and poor. There are about 1.2 million inhabitants in the border provinces of Esmeraldas (Pacific coast), Carchi and Imbabura (northern highlands), and Sucumbíos, Napo and Orellana (Amazon jungle). Of these, about 57% are rural dwellers³ who account for about 10% of Ecuador's agricultural enterprises.⁴ The border provinces have been traditionally excluded from Ecuador's mainstream development.⁵ Almost 70% of all Ecuadorians lived at or below the poverty line in May 2000, up from 46% in 1998.⁶ Data from the 2001 agricultural census shows 22,000 unemployed people in the northern farming sector, between the ages of 15 and 49 (23% unemployment rate).⁷ Furthermore, and according to a recently concluded Mission-funded survey, family incomes in the north are significantly lower than the national average, and over 80% of a representative sample of northern border citizens cited economic woes, poverty, or unemployment as Ecuador's highest priority problems.⁸

This endemic poverty in the north is aggravated by the worldwide coffee crisis and a significant drop in cross border commerce resulting from the Colombian conflict and dollarization. Gersony (March 2002) estimates that coca eradication, increased violence in Putumayo, dollarization, and GOE control of subsidized gas sales to Colombia, have contributed to a 50% decline in

³ Instituto Nacional de Estadísticas y Censos del Ecuador, 2001 population census. www.inec.gov.ec

⁴ III Censo Nacional Agropecuario, INEC-MAG-SICA, Ecuador, Completed in 2000; published in May 2002. www.inec.gov.ec or www.sica.gov.ec

⁵ GOE data shows that with respect to educational levels, service coverage (potable water, electricity and sewage systems) and poverty, Ecuador's Northern Border region is markedly worse off than the rest of the country (UDENOR's "Programa de Desarrollo Alternativo Preventivo y Bienestar Social", Vol 1, pg 7).

⁶ World Bank/Sistema de Información Social y Económica (SIISE)

⁷ These numbers are conservative as they do not reflect the underemployed, off-farm workers that sometimes work on farm; and those employed in illicit activity.

⁸ University of Pittsburgh, Latin America Public Opinion Project, Ecuador Democracy Audit, Apr, 2002.

commerce in the Sucumbios towns of Lago Agrio and Puerto del Carmen. Additionally, border businesses and potato farmers in Carchi have seen their competitiveness seriously eroded by dollarization, which has put Ecuador at a distinct economic disadvantage with its neighbors over the short-term. For example, Carchi and Imbabura potato farmers report that they are not able to recover costs due to the high production input and lower commodity prices in Colombia. They identify inadequate availability of water as their biggest constraint to agricultural production and diversification.⁹

Similarly, the coffee crisis affects an estimated 25,000 farm families in Sucumbíos, Orellana and Napo provinces. These families have traditionally depended upon the cultivation of robusta coffee for about 70% of their household incomes. The worldwide coffee glut however, has driven coffee prices to historic lows, discouraging farmers from maintaining their standing trees and placing them in extremely precarious economic conditions. Given their low level production input practices, these growers cannot compete with cheaper coffee from Asia and Brazil.¹⁰ To supplement their falling incomes, many of these families cross the border to work in the coca harvests in Putumayo, bringing the coca cultivation know-how (and perhaps cocaine processing technology) back to Ecuador upon return to their farms, or they migrate to Ecuador's cities, to Europe, or to the U.S.

3. Spillover of Violence into Ecuador

There have been frequent allegations and public suspicions that violent crimes and kidnappings in the northern border region are being perpetrated by Colombian guerrilla groups. Although there have been some minor incursions by armed guerrillas, there is only scant evidence that guerrillas are engaging in illicit activities within Ecuador other than occasional revenge or disciplinary killing of their own members. The FARC and ELN are known to use Ecuador for rest, recreation and re-supply. So long as they enter Ecuador unarmed and in civilian clothing, Ecuadorian authorities have no legal basis to exclude them. Recurrent discoveries of abandoned clandestine guerrilla rest camps on Ecuadorian soil, however, indicate that organized incursions are more numerous than those that are detected and countered by Ecuadorian security forces. There is however, a real danger that severe conflict on the Colombian side of the border could lead to sudden and substantial displacement of armed combatants into Ecuador.

Violence is on the rise in Sucumbíos. So far this year, there have been around 70 reported murders in Lago Agrio¹¹ alone compared with 90 in the entire province during all of 2001. This increase is attributed to narco-mafia and guerilla groups, and appears related to conflicts over the distribution of proceeds from drug deals and revenge killings against guerilla deserters and their

⁹ USAID on-farm interviews, October 11-12, 2002.

¹⁰ Ironically, there is no lack of demand for robusta coffee in Ecuador as the country has one of the most advanced coffee processing industries in the world (freeze dried and soluble coffee). With the decrease in robusta production in Ecuador, local processing plants now must import over 150,000 sacks per year from Africa and Asia to approach full plant processing capacity. This local demand challenges Ecuadorian growers in the north to increase their productive capacity at lower costs.

¹¹ El Comercio, May 18, 2002, "68 Asesinatos Fueron Selectivos". In addition to this article, there were a series of similar articles on violence in Sucumbios and Orellana in Ecuador's press around the same time.

families.¹² Residents are extremely concerned about the rise in violence as evidenced by the Orellana-Sucumbíos Biprovincial Assembly's May 14 2002 request that the GOE strengthen police and army presence in the area. The GOE has pledged taking several measures including an increase in police presence by 350 by June/July of this year.

Noteworthy also in Orellana and Sucumbíos was a major strike - the second in the last two years - carried out between February 18 and 24, 2002. Citizen ire was directed at general government neglect, with specific demands made to improve electricity, address poverty, increase employment, provide credit, alleviate the coffee crisis, improve social services, speed land titling, and complete key infrastructure projects. There were reported incidences of mob violence, destruction of property, and kidnappings of government officials. Since the strikes, the GOE and the Orellana-Sucumbíos Biprovincial Assembly have been in formal negotiations to address these demands. Relations between the GOE and the Assembly are very tense.

Spillover of violence in Carchi and Esmeraldas also continues, with kidnappings and extortion fees frequently reported in the former, and narcotics reprisals and common crime in the latter. While Carchi kidnappings and protection fees often bear the written stamp of Colombia's ELN, it is assumed that at least some of these crimes are carried out by common Colombian criminals under the guerillas' guise. There have been four kidnappings in the last 10 months. In Esmeraldas and Imbabura, an increasing spate of robberies along the San Lorenzo-Ibarra highway is generally associated with common Ecuadorian and/or Colombian criminals. The number of narco killings in San Lorenzo appears to have decreased this year over last year.

The security problem is both cause and effect of under-development along the northern border. On the one hand, the lack of security in the region constrains development work and productive investment. On the other hand, the lack of security signals a need for greater GOE presence and increased investment in socio-economic development. It is widely accepted that pervasive insecurity has made it increasingly important that development and security investments be closely coordinated by the GOE and the donor community. In fact, the Mission is working closely with Embassy and GOE partners including the armed forces and national police to enhance security and law enforcement in the northern border. Both the military and police have already substantially increased their presence in the border areas this past year, and new security detachment facilities are under construction. The GOE recently deployed a reinforced, company-sized detachment (150 men) on key terrain approximately 3km south of the international bridge that is on the Rio San Miguel, and 20km north of Lago Agrio. This new location will permit the military to provide direct security for a joint, governmental checkpoint that is under construction immediately below the new unit. This center will handle legal processing of all vehicular traffic crossing the bridge. The new location will also serve as a 'patrol base', rather than a traditional barracks, to support platoons as they patrol in the outlying region around the new detachment. Units can rotate into the site to rest and recuperate between missions and serve as a ready reaction force for other units out on operations. This new concept allows units to be based closer to the problem areas along the border, yet retain the security necessary to confront an attack on

¹² Ibid and Gersony. Note also that at the time of this writing, USAID received reports of seven deaths in Puerto El Carmen, allegedly from a FARC-AUC conflict. IOM is building a water system in this town.

the post. As the Colombian conflict has demonstrated, isolated, small detachments of less than company size are easy prey for guerilla attacks. In addition to support for the new San Miguel area infrastructure, the Ministry of Defense allocation of \$1.5 million for the Northern Border area includes building a similar detachment at the key road intersection northeast of Lumbaqui (between Lago Agrio and Tulcán), and the upgrading of existing facilities at Santa Cecilia.

To conclude, continued and escalating violence along the northern border is cause for concern. As shown in Colombia in the 1980s, such violence and social unrest can spark a broader context of illicit criminal behavior. GOE efforts to contain this violence are important steps in the right direction that should be supported. Successful development investments require, *inter alia*, complementary security investments.

4. Refugee Spillover

The violence in Colombia gives rise to refugees and displaced persons who come to Ecuador seeking personal safety, employment opportunities, and social services. In June 2001, the Government of Ecuador's Foreign Ministry reported that there were 1,502 legally recognized refugees in Ecuador, and 1,562 more awaiting legal status. As of December 31, 2001, these numbers climbed to 1,672 and 2,403, respectively. By April 30, 2002, the number of legally recognized refugees had climbed further to 2,427. IOM and UNHCR consider these increases modest (for example, in early Dec 2001 there were only about 50-60 displaced/refugees living in temporary shelters).¹³ In addition to official refugees, there continues to be a large number of displaced persons who come to Ecuador temporarily when violence erupts, and then return to Colombia after the situation calms down. Since these people do not officially seek refugee status, it is difficult to know their numbers.

The increase in refugees and displaced persons contributes to social problems. For example, the increase in common crime is perceived to be a result of the increase in unemployed refugees and displaced persons as these often cannot acquire the documentation needed for employment in Ecuador and must turn to illegal means to survive.

While the spillover of refugees from the Colombian conflict has not spun out of control, it is not clear that the problem will remain manageable. The likely escalation of the Colombian conflict under the Uribe administration could lead to significant increases of refugees and displaced persons in Ecuador. Given this possibility, the GOE must remain vigilant if it is to successfully address the range of challenges that would surely accompany such an increase in refugees and displaced persons.

5. Dollarization, Poor Economic Management, and Spillover

Perhaps the greatest spillover-related threat to Ecuador is that related to poor management of the dollarized economy. Dollarization requires strengthened international competitiveness and fiscal

¹³ Note that while these numbers are official it is generally believed that they are imprecise since it is difficult to track when a refugee returns to Colombia and therefore ceases to be a refugee.

austerity. It is generally agreed that if Ecuador doesn't address these challenges, it faces the same fiscal, banking, and recessionary crisis currently shaking Argentina, which took a similar approach to currency stabilization. If Ecuador doesn't take aggressive measures to deal with these challenges, it could very well find itself in a new monetary/economic crisis similar to Argentina's. Should such a crisis occur in Ecuador, it would seriously erode the country's ability to manage all the spillover threats mentioned above. It would shrink public investments in defense, law enforcement and infrastructure; aggravate poverty and unemployment; further weaken the competitiveness of the agricultural sector; and contribute to greater crime and social unrest. It is critical that the GOE effectively manage the dollarized economy. The multilateral international financial institutions are working with the GOE on these issues. USAID's Poverty Alleviation team is providing limited support in banking supervision and public debt management, and is gearing up to deal with the competitive issues in the coming months.

B. The Development Context

Managing the spillover threats and constraining the growth of the coca/cocaine economy in Ecuador requires greater security and socio-economic development in the northern border. Security and socio-economic development require, inter alia, the presence of increasingly strong and legitimate state and community institutions that can effectively defend national territory, enforce the law, protect human rights, deliver public services, and resolve conflicts. In this sense, the performance of the military and the police will be critical to enhance security in the region, while the performance of provincial and local governments and communities will be critical to the success of the development aspects of this Strategic Objective.

The Ecuadorian National Police, its Anti-Narcotics Directorate, and the military are increasingly deploying their scarce resources in the northern border provinces to address border security, rising levels of violent crime, and drug interdiction. They are doing so with USG assistance through the Narcotics Affairs Section (NAS), the Drug Enforcement Administration (DEA) and the MILGRP. While GOE efforts are encouraging and critical to a more secure development environment, they are limited and require international support. To date, USG support has been provided in the form of increased capacity-building through communications, transport, equipment and infrastructure to the armed forces; training for police, military, and judicial agencies in interdiction, money laundering and counter narcotics operations; and information-sharing contributing to successful counter-narcotics operations. These are important steps but much more needs to be done. Continued USG support for the police and military will be critical to strengthening the capacity of these institutions to provide for security and law enforcement in the northern border, a prerequisite to sustainable development.

In addition to stronger police capacity, law enforcement will also require the effective and coordinated efforts of key justice sector actors including judges and prosecutors. The promulgation of a new Criminal Procedures Code in 2001 created a more transparent, oral based criminal procedure, which will help make narcotics cases less vulnerable to corruption. While a step forward, implementation of the Code requires massive amounts of training, new infrastructure and retooling of the system, from new law school curricula to police, judges and prosecutor training. NAS has invested some \$500,000 on training in the new Code, and plans to

continue this effort in 2003. USAID is also addressing some of these issues through its Democracy and Governance program, especially training judges and court administrators on implementation of the Code.¹⁴ NAS and USAID efforts in this area are mutually reinforcing.

The GOE is currently going through a major, albeit slow, process of decentralizing key public services, economic resources, and political power to provincial and municipal governments. Powers and functions being decentralized to subnational governments include: health, education, environmental management, solid waste disposal, electricity, productive infrastructure (e.g., irrigation), and roads and related infrastructure. Recently obtained Mission data on citizen confidence in municipal government suggests relatively high levels of trust (much higher than central government institutions). The decentralization process coupled with relatively high levels of citizen trust is encouraging as it will help bring the state closer to citizens in the remote reaches of the country, including the northern border.

Effective decentralization and building local government capacity however, are long-term processes that require major assistance. There are 27 municipalities in the five northern border provinces of Esmeraldas, Carchi, Sucumbíos, Napo and Orellana. Population sizes range from 3,000 to 204,000, and the average municipal population is less than 20,000. Nationwide, all municipalities are grappling with the new powers and functions being transferred to them through the decentralization process. Recent research suggests that northern border municipalities are operationally inefficient, have little to no capacity to raise resources locally, are therefore highly dependent on central government transfers¹⁵, and do not spend significant amounts of their annual budgets.¹⁶ Better performing local governments can deliver social infrastructure on a more sustainable basis; can help create a local enabling environment for economic development through partnerships with community organizations and producers associations; and can strengthen the legitimacy of democracy more broadly. Decentralization represents an important opportunity for increasing a general context of licit socio-economic and political development in the northern border.

Stronger communities along the northern border, and especially indigenous federations, can be key partners in stopping the spread of the illicit coca economy into Ecuador, providing social sanctions that can be an important and effective compliment to military presence. For example, the Awa Indian Federation enforces a zero coca tolerance policy throughout the strategically important Awa territory (straddling Esmeraldas and Carchi and bordering Colombia), and has in recent months uprooted small coca fields planted by two Awa families living on the border. These families were advised that coca will not/not be tolerated within the Ecuadorian Awa territory, and no further incidents have been reported. Nevertheless, with approximately 14,000 Colombian Awa (some of whom are apparently engaged in the coca/cocaine economy) living just across the border from Ecuador's smaller Awa population (3,600 Awa), and with regular communications and exchanges between these two groups, the risk of coca cultivation is real.

¹⁴ Note that judicial training under SO12 (Democracy and Governance) is done under existing authorities.

¹⁵ A tax of \$.25 per barrel on all oil produced in the six province Amazon area is allocated to local development. Of the proceeds, some 60% is divided among the region's municipalities and 30% (\$7 million) is allotted to six prefecturas, all through direct cash transfers.

¹⁶ Corporacion de Desarrollo, Finanzas Provinciales del Sector Público no Financiero, July 2001.

Weak community organizations, on the other hand, may provide dangerously fertile ground for the transmission of very different values and production practices from Colombia into Ecuador. Strengthening communities' human, social, and bridging capital will clearly help create, reinforce, and sustain the structural conditions for licit behavior in these remote areas.¹⁷

Constraining spillover and the growth of the coca/cocaine economy will depend on stronger state institutions and communities, good governance, and increased licit economic opportunities.

C. The Development Challenge

Spillover from the Colombian conflict into Ecuador, including a growing coca/cocaine economy and its associated ills, is anathema to the interests of the USG and the GOE, for it portends the continued and perhaps increased flow of illegal drugs to the United States, a threat to democracy in Ecuador, and regional instability. Containing this spillover is the thrust of this SO. While spillover impact has not yet materialized on a grand scale and has been managed relatively well by the GOE with USG and other support, continued success is not a given. The latent and structural factors that can aggravate spillover are real in Ecuador. With weak state institutions, weak communities, endemic poverty aggravated by the coffee crisis and falling commerce, poor management of the dollarized economy, and escalating violence in Colombia, Ecuador faces the real possibility of increased drug-trafficking, refugee flows, violence, crime, and coca cultivation along its northern border. Rather than declare victory, the GOE must move boldly and take advantage of the relative calm now to contain further spillover impacts in the future. Vigilance now will help mitigate the need for more costly investments in the future.

The international community has recognized the importance of supporting the GOE in meeting this challenge. Per the October 2001 Consultative Group meeting in Brussels, the GOE, the USG, European countries, and multilateral agencies pledged \$266 million to help the GOE address the challenge. The Mission and GOE partners are convinced that given the relative climate of peace and stability in Ecuador, there is still time to contain spillover and prevent a major expansion of the coca/cocaine economy into Ecuador.

This strategy and the integrated package of activities that constitute it, are aimed at the structural and latent weaknesses described above, namely weak democratic institutions, weak state presence, weak community structures, poverty, and economic crisis. Such factors can contribute to a worsening situation in the north, where spillover from Colombia and the coca/cocaine economy can quickly destabilize Ecuador. The challenge is to help the GOE to address these issues by fortifying a sustainable, licit social, economic, and political environment in the north. This requires a multidisciplinary approach that combines development and security interventions. USAID efforts and the efforts of other USG agencies will complement each other in helping the GOE to cement a more stable, secure and lawful development context, and by strengthening the resolve of the Ecuadorian public in fighting narco-trafficking. Selected efforts under the Mission's democracy, economic growth, and environment Strategic Objectives will complement this program.

¹⁷ Thoumi, Francisco

Flexibility has been the watchword since the program's inception, and it will continue to be so in the coming years. Major emphasis is placed on social/productive infrastructure throughout the life of the SO with productive activities playing a relatively minor role (15 % of all resources). At the same time, the Mission is very cognizant of the need to foment licit employment in the north. In this light, the Mission will be alert to opportunities for creating more jobs in the area. Should these opportunities present themselves, the Mission will give serious consideration to allotting more SO resources to productive activities, in consultation with the GOE.

II. PROGRAM DESCRIPTION

A. Follow On to the Northern Border Development Program

In October 2000, USAID's Bureau for Latin America and the Caribbean ("LAC") approved USAID/Ecuador's \$8 million, 24 month Special Objective ("SpO") 13, entitled "Northern Border Development". On July 12, 2002 the AA/LAC authorized a one year extension and an additional \$10 million for this SpO. The objective of SpO 13 is to improve the quality of life of the population living along the northern border. Funds appropriated for SpO 13 support community and productive infrastructure and community strengthening as a means of managing the potential spillover impacts associated with the civil conflict and coca/cocaine economy prevailing in neighboring Colombia. To date and per the Activity Design Document, SpO 13 is being successfully implemented by IOM in the provinces of Esmeraldas, Carchi, Sucumbíos, Orellana, Napo and Imbabura. To follow on to SpO 13, to support ACI, and to support of the GOE's five year Northern Border Development Plan (to which the USG made a first year pledge of \$24 million at the October 2001 Consultative Group meetings in Brussels), USAID/Ecuador now proposes a new Strategic Objective (SO).

B. Program Results

A Results Framework describing the proposed Strategic Objective and five intermediate results, is presented in Section I. The highest level result pursued through the Ecuador Northern Border Development SO is: "Spread of the Andean Coca/Cocaine Economy into Ecuador Contained". This SO focuses the program directly on the major USG, Andean Regional Initiative foreign policy priority in Ecuador, and makes explicit the complementarity between this SO, Mission democracy, economic growth, and environment programs, and the efforts of other USG country team members. The USG country team will monitor a set of contextual indicators to gauge success in achieving the SO, including the number of hectares under coca cultivation (not to exceed 500 hectares at program completion date¹⁸), number of refugees, number of deaths attributable to the Colombian conflict (including narcotics related murders), and the value of licit investment flows for northern border development. USAID will be accountable for improvements in indicators measuring the results to which USAID-funded activities contribute,

¹⁸ Currently, NAS and DEA estimate that there are less than 500 hectares of coca in Ecuador. The Mission Counter Narcotics Team believes that holding cultivation at this level through the end of the program constitutes success. As a point of reference, as of May 2001, INL estimated that 136,000 hectares of coca were under cultivation in Colombia; 34,000 hectares were under cultivation in Peru; and in 15,000 hectares were under cultivation in Bolivia.

including increases in dollar value of licit economic activities; increases in licit employment; and increases in citizen satisfaction with local governments. The Mission will use sample frames and data from the GOE's 2000 agricultural census to set indicator baselines and targets.

USAID's overall approach to achieving the SO is to support GOE efforts to fortify a licit socio-economic and political context in the north, characterized by: supportive inter-governmental relations between national, provincial, and municipal institutions; local governments that effectively perform their functions and provide services to the historically marginalized; communities that democratically engage the state, sanction illicit activity, and resolve conflicts peacefully; and a local economy that creates licit jobs and income. As the strategy explicitly recognizes, achievement of USAID-funded development results in the north (IRs 1 and 2) will depend on simultaneous efforts by the GOE, with USG support, to enhance security and law enforcement along the northern border, and to ensure Ecuadorian public support for counternarcotics efforts (IRs 3, 4, and 5).

The five IRs under the SO are as follows:

IR 1: Citizen Satisfaction with performance of local democratic institutions increased (USAID has primary responsibility)

IR 2: Licit income and employment opportunities increased (USAID has primary responsibility)

IR 3: More effective enforcement of laws related to counter narcotics and violent crimes (NAS will have primary responsibility)

IR 4: GOE Public Forces more effectively defend security in northern border area (NAS, MILGRP have primary responsibility)

IR 5: Ecuadorian public recognizes that a coca/cocaine economy is a national problem (PAS has primary responsibility)

C. Programmatic and Geographic Coverage

The GOE's Northern Border Development Program, presented at the Consultative Group conference in Brussels in October 2001, formally requested donor funding of nearly \$400 million distributed among the six northern border provinces of Esmeraldas, Carchi, Sucumbios, Imbabura, Orellana and Napo. In response to this broader need, USAID agreed to expand its program to these provinces when the SpO 13 amendment was signed in July 2002. The proposed SO continues this broadened geographic focus, and provides for new types of activities in these provinces. In the process of activity selection and implementation, USAID will negotiate appropriate geographic emphasis with UDENOR, based on information provided by implementing partners, need, impact, cost-effectiveness, community and local government commitment, counterpart contributions, and other factors. Additionally, the Mission may decide to use ACI funds to support activities in other geographic areas of Ecuador. For example,

strengthening the competitiveness of certain northern border export products may require assistance to actors along the farm-to-market chain based in export centers, as opposed to northern provinces.

D. Illustrative Activities under the IRs

IR 1 Citizen Satisfaction with Performance of Local Democratic Institutions Increased.

The ability of municipalities to strengthen presence and reach in remote areas of the north is critical to creating an environment of viable and sustainable democratic governance and the rule of law. Stronger local governments that can deliver public services, meet the demands of citizens, and ensure that citizens meet their obligations to government, are an important element of a more licit socio-economic context. Similarly, stronger communities that can democratically articulate their demands to the state, meet their obligations to local government, hold their representatives accountable, and strengthen a context of positive norms and behaviors, contribute to a more licit socio-economic environment.

Under SpO 13, highest priority was given to building community infrastructure, because it was an obvious need that met expressed local demands, and also showed quick, visible impact of the USG and GOE commitment to improving living conditions on the border. While the involvement of community organizations such as local water boards, and engagement of local leaders in the planning of these systems have been a part of the community infrastructure activities to date, with the longer-term GOE and USG commitment to the northern border, there is an opportunity to more explicitly link infrastructure financing and TA efforts to broader efforts to strengthen local state institutions, communities, and more accountable and transparent democratic governance in service delivery. To achieve this result, USAID will fund infrastructure, institutional strengthening support, and democracy training to northern border municipalities, as well as technical assistance and training to build the capacity of community groups to engage local governments peacefully and democratically. It is anticipated that such an approach will facilitate long-term sustainability of infrastructure, increase citizen satisfaction with government performance, strengthen democratic culture, and contribute to the legitimacy of democracy. While such impacts offer their own intrinsic benefits, in the context of Ecuador's northern border, they help constrain the coca/cocaine economy by strengthening state presence and licit community norms within a generally more democratic context.

IR 1.1 -Increased access to social infrastructure:

Social infrastructure continues to be in high demand in northern border provinces (University of Pittsburgh, Gersony, and CEPAR). The social infrastructure work begun under SpO 13 through IOM will continue under this SO. Under this SO however, infrastructure efforts will be more closely coordinated with local governments and citizens groups, and IOM will staff expertise to help build the capacity of larger municipalities to manage and sustain USAID-funded infrastructure projects. Therefore, to achieve this IR, USAID will provide funds to IOM to work with selected local governments and community groups to build infrastructure, and institutionalize systems and procedures to properly operate, manage, and sustain that infrastructure. IOM has and will continue to carry out infrastructure projects with a rigorous and transparent competitive bidding process, in collaboration with Ecuadorian national, provincial,

municipal, and *junta parroquial* authorities, as well as citizen groups. This process and local involvement will be further strengthened as a means of building stronger intergovernmental collaboration and greater transparency and accountability in public procurement. Beneficiaries under this IR will include those municipalities and citizens where IOM will implement infrastructure projects. Proposals for numerous infrastructure projects requiring additional resources are already being received by UDENOR, IOM and USAID, and these will be validated and initiated as part of the second phase of IOM's work during FY 02.

IR 1.2 - Municipal governments manage effectively and democratically

In addition to IOM's infrastructure and municipal strengthening work planned under IR1.1, USAID will fund a program of broader local governance support to northern border municipalities. It is anticipated that this activity will go beyond the municipalities with whom IOM will work. And whereas IOM's municipal support will be focused on infrastructure financing, technical assistance to maintain that infrastructure, and transparency in public procurement, this activity will help municipalities to address a wider range of governance issues and to do so democratically, in close collaboration with citizens in remote communities. While municipal needs will vary, and detailed assessments will be required prior to implementation, it is anticipated that the following areas of assistance will be accorded high funding priority:

- participatory planning and project management
- participatory budgeting and financial management
- Citizen education on payment for services
- transparent contracting for public services
- promotion of local economic development
- environment protection and management for sustaining income streams.

It is anticipated that activities leading to achievement of this result will be carried out through a competitively awarded cooperative agreement in support of the program of a U.S. and/or Ecuadorian PVO. The program will work simultaneously with municipal governments and communities within their jurisdictions (see IR 1.3) to strengthen democratic local governance.

IR1.3 Community Organizations Strengthened.

Complementary to municipal strengthening will be USAID support to strengthen communities and their participation in local government decision making and oversight, to improve accountability, transparency and consequently, credibility. Strengthening communities is of critical importance in combating spillover and especially coca cultivation and illicit activity, for more cohesive communities can sanction illicit behavior, promote licit norms, and facilitate better governance.

But much of the northern border area suffers not only from underdevelopment and poverty, but from a dearth of “social capital”. Communities are weak, fragmented, conflictive, or non-existent. This fact, together with weak local governments and a tradition of centralization in the provision of social services by state agencies contributes to a weak context for local democratic governance. Community based organizations give expression to citizens’ needs and visions for

the future. Unless they expect to become autocracies, local governments must look to CSOs/CBOs/NGOs as representatives of community needs/ideas and as collaborative sounding boards which they can use in drafting and implementing municipal development strategies.

There is thus a need to help strengthen these organizations. Under SpO 13, activities are currently underway with and through local NGOs to build leadership and organizational capacity in indigenous and afro-Ecuadorian communities in Carchi and Esmeraldas. But there is much more to be done in this field, particularly in developing capacity to participate effectively in local government planning, decision making and oversight, conflict resolution, leadership training, defense of human rights, and local economic development. USAID will continue to expand support to community organizations, in particular those demonstrating a commitment to democratic values and to empowering marginalized groups. Strengthening these organizations and networks will also contribute to the successful participation in prioritizing and maintaining community infrastructure projects by local governments.

It is anticipated that activities leading to achievement of this result will be carried out through the same competitively awarded cooperative agreement referred to under IR 1.2. The U.S. and/or Ecuadorian PVO will work simultaneously with municipal governments and communities within their jurisdictions (see IR 1.3) to strengthen democratic local governance.

Note that all activities under IR1 will be managed by the Northern Border SO Team. Activity implementation and lessons learned will be shared with the Democracy and Governance SO, who are implementing similar activities nationwide (including in five northern municipalities).

IR 2. Licit Income and Employment Opportunities Increased.

Coca/cocaine offer a lucrative alternative to poverty. Containing the spread of the Andean regional coca/cocaine economy into Ecuador calls for, *inter alia*, efforts to address the high levels of rural poverty and unemployment in the north. The Mission recognizes that traditional alternative development efforts in neighboring Andean countries have been challenging and that the impact of NGO-led productive efforts have been mixed.

Unlike its neighbors however, Ecuador is not yet in a situation where it must offer quick, costly, top-down, high risk, and managerially complex alternative development crops in exchange for coca eradication. In Ecuador, there is still time to take a more considered approach to strengthening the conditions that enable more competitive and sustainable rural enterprises throughout the north, where a relatively wide range of private-sector, market-led agricultural activities already exist. This offers a significant opportunity which this program can capitalize on without the need for the kind of large-scale crop substitution efforts undertaken in other Andean countries. Given the Ecuadorian context, the Mission's approach is aimed at generally strengthening a more competitive licit rural economy in the north, as opposed to substituting coca plantations, in specific areas, with legal crops.

Ecuador's draft agricultural census suggests significant agricultural activity in northern border provinces. The census shows about 82,000 farms, spanning an area of 2.125 million hectares, with an average of 10, 49, and 47 hectares per farm respectively, in the Sierran provinces of

Carchi and Imbabura, the Coastal province of Esmeraldas, and the Amazonian provinces of Napo, Sucumbios and Orellana. In terms of hectares under cultivation and farm families involved, coffee and cacao are far and away the leading crop in the *Amazonia* provinces of Sucumbíos, Orellana and Napo. However, in terms of value their share of non-farm revenue is low because of the worldwide collapse in coffee process, low input cultivation practices, and aging plantations. On a more positive note, Ecuador produces a unique and highly valued variety of cacao with promise for penetrating niche markets. The naranjilla fruit covers a relatively small area but accounts for the highest value production in these provinces. Pastures, native and improved tropical hardwood forests cover over 80% of the total surface area of the Amazonian provinces.

Potatoes are the most widely cultivated crop in Carchi, both in terms of value and hectares. But producers are subject to highly volatile markets and extreme price fluctuations. Similarly, the competitiveness of potato exports to Colombia has been seriously hampered by dollarization which *inter alia* has pushed up the costs of essential production inputs. There also appear to be opportunities in Carchi to support value-added agro-processing of potatoes (freeze-dried products for sale to the national School Feeding Program which receives about \$25 million annually¹⁹), as well as fresh and frozen vegetables (the latter being constrained by drought). According to recent estimates, the combined value of agricultural products sold in 2001 by Carchi and Imbabura farmers was in excess of \$150 million. In Esmeraldas, the african palm, banana, and cacao industries are relatively well developed and account for the lion's share of agricultural production, both in terms of hectares under cultivation and value. In addition to the crops mentioned herein, a significant range of crops is grown in these provinces.

A recently conducted, Mission-funded rapid rural assessment of productive possibilities in the northern border²⁰ concluded that:

1. Northern farmers cite securing stable markets for their products as the biggest constraint to increased production;
2. Greater private investment in rural enterprises in the north has been constrained by, among other things, a lack of knowledge on the production, post-harvest treatment and storage technologies, production costs, and reliable marketing systems for certain existing crops; how to produce and market newer crops (like black pepper and cacao); lack of trust between small producers and established businesses; and a lack of experience among smaller producers in commercial agriculture;
3. Transport infrastructure in the north, though rudimentary, is better than in other Andean countries; a relatively wide range of agricultural support institutions – public, private, not-for-profit, and universities –are present; and, at least for now, personal security risks are manageable;

¹⁹ Interview with Mr. David Nelson, Director, World Food Program/Ecuador, October 8, 2002.

²⁰ Development Alternatives Inc. "Informe Tecnico para la Identificacion de Alternativas de Produccion en el Norte del Ecuador", March 2002.

4. There are a range of private, public, and not-for-profit credit institutions, although they are not particularly strong; loan amounts are low; the number of loans is low; and the ratio of loans to production value is low. Credit is generally considered a potentially important input to increased production and sales for some products, although farmers suggest that credit use will follow greater market access.
5. The track record of NGO productive projects in increasing jobs and income is one of relatively low impact.

The Mission's approach to increasing licit income and employment will focus on increasing the competitiveness of existing rural enterprises by helping remove those constraints to rural development that private money will not address. Our approach will be gradual, private-sector focused, driven by the demands of productive actors, and market-led. On the one hand, we will continue efforts begun with IOM to increase small and medium producer access to key productive assets, including land title and infrastructure. Additionally, we will undertake new activities to improve competitiveness by strengthening existing linkages between small/medium producers, buyers, processors, and domestic and international markets. Through these new activities, we will support existing products that have market potential and where there is already a clear set of partner institutions and actors along an existing farm-to-market chain. Our funds will help build alliances between public, private and not-for-profit actors to overcome constraints to increasing product sales and meeting domestic and international demand. Additionally, our support will complement support by UDENOR, the IDB and the FAO, who are supporting food security, plot diversification, and better production techniques for small farmers (especially in the coffee sector) in the Amazonia.

IR2.1 Access to productive infrastructure increased

Farm-to-market roads, riverine transport, bridges, small electrification or mini-hydro projects, and irrigation systems provide important public goods for private sector rural development. They can help generate short-term employment, improve product quality, and lower transportation, marketing, and related costs. Under SpO 13 and through IOM, the Mission has funded limited productive infrastructure. More can be done in this area, and a recent assessment of infrastructure needs²¹ recommends continued work in this area, specifically identifying 21 projects to be implemented by IOM under phase two of its northern border program. Recommended projects include rationalization of small irrigation canals to increase the efficiency of centuries old canals in drought-stricken southern Carchi and northern Imbabura. This region offers potential for fresh and frozen vegetable production for domestic and regional markets. Productive infrastructure projects will be closely coordinated by IOM with local governments and private actors.

IR2.2 Small and communal land holdings legalized

Title to land brings a range of benefits. First and foremost, it is a means to securing a key productive asset. Once land title is legalized, it allows the holder to leverage land for other assets, especially credit. Furthermore, land title and the ownership that goes with it strengthens

²¹ Gersony, March 2002

community and social cohesion because when people own land they tend to stay where they are and invest in improvements. Land title also helps strengthen and extend the rule of law to remote places. Under SpO 13, USAID is funding assistance to nine Quichua communities along the San Miguel River in Sucumbíos Province to legalize 66,000 hectares of forest reserve. Ten other communities require similar assistance.

To achieve this IR, USAID will assess the need for wider land titling efforts in additional northern border areas. Further land titling support to local NGOs and small holders can help create incentives to strengthen land tenure security and provide for licit investments to protect reserves and make small holdings more productive. Note that land titling efforts are constrained by the complex and centralized administrative process for obtaining title. While the USAID focus has been on helping small holders navigate this lengthy process, the IDB is working on the longer-term effort of structural changes to this complex process. The more immediate USAID efforts are necessary to help small holders obtain titles over the short-term, while the IDB undertakes longer-term efforts to simplify the administrative procedures associated with the titling process.

IR2.3 Linkages between producers, buyers, processors, and markets strengthened

USAID plans to finance a grant fund to help producers, buyers, processors, and firms increase sector competitiveness by overcoming specific bottlenecks to increasing northern border product sales and meeting domestic and international demand. Grants will be awarded through a competitive process, based on proposals submitted from groups like producers associations, not-for-profit organizations with sustainable business activities, and/or organizations representing alliances between producers, buyers, and investors. U.S. and Ecuadorian private sector groups would be able to compete, but would need to clearly show how the grant would help them overcome a constraint which the private market cannot efficiently address, and how the grant would increase profits and/or employment for small/medium producers.

Grants will complement well-established sectors where private money predominates; where there is a successful track record of production for secure markets; and where there are linkages between farmers, intermediaries, processors, and markets. The emphasis on private sector experience, know-how, and investment will help ensure success and sustainability. The fund's bottom-up approach takes USAID out of the business of building rural enterprises, and puts the onus of identifying successful projects on those who best know the constraints and opportunities for successful rural enterprises and are already risking their own resources in a given sector.

The value added by the grant fund would come from making funds available to overcome constraints for which private money is not available. Grants might help to: overcome socio-cultural barriers to producers and industrialists working collaboratively for shared profit; strengthen producers associations; determine the technical, economic, and financial feasibility of riskier (but potentially profitable) investments; make market information more accessible; and bring investments to more geographically remote (but accessible) places.

Successful proposals to the fund would identify a specific constraint along the farm-to market chain in competitive sectors that a grant could help overcome. Successful proposals would

clearly show how overcoming that constraint would contribute to increased employment and/or incomes in the given sector. Successful proposals would clearly show how the grant would help ensure market access, or in cases where stable markets for the product exist, demonstrate the manner in which the project helps meet the market requirements and standards. Successful proposals would also need to show a collaborative approach between the respective actors along the farm-to-market chain, e.g. an approach that builds alliances along this chain, between the poor and the non-poor, through mutual efforts to increase the earnings potential of all actors. Proposals will be driven by the enlightened self-interest of profitability in a market environment, as opposed to charitable or social incentives.

The kinds of projects that could be supported by the fund include:

- On-farm TA to increase production to satisfy existing market demand;
- TA to help producers meet phytosanitary requirements, quality standards, or certification standards of existing niche markets;
- Encouraging the use of integrated pest management as one way to lower production costs and thereby increase competitiveness;
- Promotion of exports in foreign markets, to help increase sales, incomes, and jobs.
- Pre-feasibility studies and studies to lower risk for potentially profitable projects with emphasis on cross border trade;
- Services to help package projects for the private credit market, and effectively broker the project-specific demand for and supply of credit;
- Studies on market conditions and the implications for northern border producers;
- Studies to inform GOE negotiators about barriers to free trade in specific productive sectors;
- Market price information systems to help producers understand the variations and complexities of world prices for their products, identify the most profitable selling seasons and markets, and generally provide the right incentives for sustainable investment;
- TA for post-harvest product handling and storage;
- “Packaging” projects for private sector financing.

It is anticipated that the grant fund will begin modestly in year one and grow through the end of the SO. This will allow USAID to take a measured approach, better gauge the nature of the demand, and learn lessons about the kinds activities which best lend themselves to this kind of an approach. The fund will not be a credit fund, is not meant to be sustainable, and will involve no reflows.

With a wealth of field level information on productive activities in the north, the fund managers could serve as an important advisor to UDENOR, the GOE, and other donors on the kinds of support required to have lasting impact on rural development in the north. Similarly, the fund could provide UDENOR and the GOE with information on the kinds of policy level constraints that need to be addressed to leverage greater investment in the north. The fund could be located at UDENOR to ensure that it is integrated into GOE plans and that it leverages broader support.

The Mission is exploring the possibility of establishing the grant fund through one of the G/EGAD IQCs²².

In addition to the grant fund, USAID is planning to fund a complementary technical assistance program to bring U.S. technical know-how to bear on improving marketing of agricultural production, pesticide use, post harvest handling, and other farm to market constraints. Such assistance could also support UDENOR and the GOE to develop investor-friendly policies in the north. Identifying effective policies that do not introduce serious market distortions will be subject to further assessment and dialogue with UDENOR.

On their own, the fund and technical assistance, however extensive, will likely not be enough to spur a general context of licit economic development. They will however, serve as a useful complement to other USAID efforts (productive infrastructure and land titling), the efforts of other donors, the GOE, and the traditional private sector. Additionally, because the grant fund will strengthen public-private-and non-profit alliances, is market-driven, and links the poor with the non-poor, it should be fully aligned with the Global Development Alliance and the LAC rural prosperity initiative. Further adding to its impact.

The Mission also recognizes that farm and firm-level productive investments do not occur in a vacuum, but in a legal and regulatory framework that is either enabling or obstructionist. In particular, the GOE's broader efforts to ready the country for entrance into the FTAA and to improve the competitiveness of the agricultural sector will be important for rural development in the north. It is envisioned that the recently released GOE agricultural census and other information to be published in 2003 and 2004 with World Bank and USDA support will serve as an important data tool to help organize producers, buyers, processors, and exporters into sectoral competitiveness councils to address bottlenecks to greater export competitiveness. These councils are natural applicants to the fund. Additionally, through our Poverty Alleviation and Democracy Programs, we plan to support efforts to strengthen the legal framework for investment, contracts, and microfinance, and to build the GOE's capacity to manage trade under the FTAA. It is expected that these efforts will complement the sector support provided under this northern border strategy. (see Section II G for more information).

Furthermore, a critical assumption for the achievement of this IR is that the GOE successfully defends the dollarization regime by maintaining fiscal discipline and by taking measures to increase competitiveness. If such measures are not taken and if the Ecuadorian economy goes the route of Argentina's, this would seriously compromise economic growth and stability nationwide, including the north. The international financial institutions are supporting the GOE in improved macroeconomic management and competitiveness.

IR 3. More Effective Enforcement of Laws related to Counternarcotics and Violent Crimes.

Violence stemming from narcotics-related guerilla and paramilitary activity in southern Colombia increasingly affects Ecuador's northern border, making socio-economic development,

²² Contract award and establishment of the grant fund under this contract will be done pursuant to guidance presented in ADS 302.5.6 "Grants under USAID Contracts".

drug interdiction and law enforcement more difficult. Even police working in the border area are subject to targeted attack, with three police murdered near Lago Agrio in the second half of 2001. Seizures of refined drugs and precursor chemicals rose substantially in 2001, with a disturbingly sharp increase in heroin seizures for the second straight year. But Ecuador's imprecise, sometimes contradictory laws and undependable judicial system are not conducive to consistently effective prosecutions of criminal activities. The promulgation of a new code of criminal procedures in 2001, while a step forward, requires significant efforts in the provision of training, new infrastructure and retooling of the system, from new law school curricula to police, judges and prosecutor training. As part of their respective programs USAID, NAS, and the DEA are addressing and coordinating many of these broader judicial reform, interdiction and money laundering issues and those related to implementation of the new Criminal Code. USAID's support in this area will be provided under the Democracy Strategic Objective. It is not anticipated that funds from this Northern Border Strategy will be obligated for this purpose.

Under NAS coordination, the Embassy Country Team launched several policy initiatives in 2001, which will be expanded with the FY 2002 and beyond Andean Regional Initiative funding from INL.²³ These are aimed at improving the professional capabilities, equipment and integrity of police, military and judicial agencies to enable them to more effectively counter illicit drug activities, as well as violent crime generally. Initiatives already begun and which will be continued include: training of mobile counternarcotics police in highway and field interdiction and inspections; construction and improvement of police airport, seaport and highway checkpoints; an improved intelligence data communications network and upgraded radio communications; procurement of vehicles; and increasing emphasis to the prevention of money laundering and the interdiction of illicit chemical precursors. In addition a major new police base is to be constructed in Sucumbíos Province to enable the National Police to maintain greater presence in this most sensitive area adjacent to Putumayo, Colombia. The USG, under NAS and MILGRP direction, will also seek to improve performance in military/police collaboration for narcotics control, essential for an effective program. Per the recent recommendations of an OIG audit team, the NAS program management staff is being expanded significantly in order to adequately manage this expanded program.

NAS is the implementing agency for this result. It is not anticipated that funds from this Northern Border Strategy will be obligated for this result.

IR 4. GOE Public Forces More Effectively Defend Security in Northern Border Area. The USG will work closely with the GOE to strengthen security in the northern border region, through NAS coordinated CN assistance to the Ecuadorian armed forces, as well as multiple intervention modes financed by SOUTHCOM-MILGRP. The unconventional conflict in the border region will require a major shift in strategy, planning and execution in order to successfully confront this new threat. A major USG objective is to assist the Ecuadorian Public Forces, particularly the military, in this task. Doctrine on everything from ground combat to supply has to be enhanced to focus on the different dynamic of an unconventional situation where the enemy does not necessarily wear a uniform and defensive efforts are not those that

²³ See 01 Quito 04224, Ecuador's 2001-2002 Narcotics Control Strategy Report.

will truly determine victory. They have to come to grips with the fact that they are actually a supporting effort to the more important governmental effort of winning the population's support, which will ultimately impede the spread of Colombia's problem to Ecuador. In other words, they have to realize that they are setting the ground work for the Government's success.

The MILGP will assist this transition by focusing efforts at the operational and strategic levels so as to affect the greatest possible change. This has to be the area of highest concern initially. Four major sub-areas of assistance will be included: 1) doctrine changes to include unconventional situations, joint operations and interagency coordination; 2) equipping of public forces to confront the unique security situation along the northern border; 3) strengthening of infrastructure to accommodate the repositioned public forces; and 4) training to confront the new situation on the border—tactics, techniques and procedures. While this comprehensive approach will not require the majority of resources to be allocated for training, the latter will need to have a high priority due to its importance. In this regard specific training efforts will include:

- training at the operational and tactical level to allow ground units to put into effect changes in the military's doctrine, including conventional training with focus on ground combat units that are stationed on the northern border, or are slated to reinforce those units in the event of an emergency;
- conferences and workshops for officials at the operational and strategic levels on modifications to doctrine;
- working with the Ministry of Defense to facilitate development of a "White Paper", national defense strategy covering a five-year period;
- Subject Matter Expert Exchanges (SMEEs); and
- conventional training elements with focus on logistics, maintenance and infrastructure changes needed to properly support northern border units.

Security assistance to enhance the equipment and infrastructure of Ecuadorian forces will also be provided. This will include U.S. support for:

- provision of basic equipment needed to fight unconventional conflicts, such as radios, night vision devices or uniforms to ensure well-equipped ground units in preference to more costly items such as helicopter support;
- assistance to improve the military's logistics, maintenance and procurement systems;
- U.S. military planning and construction expertise to assist in making an overall plan for repositioning and housing of Ecuadorian forces; and
- upgrading of existing facilities.

As part of the coordinated USG counterdrug policy initiative in Ecuador, the Ecuadorian armed forces will continue to receive assistance to improve professional capabilities, equipment and integrity of military units. This program, begun in FY 2001, is providing tactical radio communications and ground vehicles to army units in the northern border area. This program will include small watercraft for the navy and marines in the coming years. It will also include counternarcotics training to military personnel, and encourage and support joint police/military counternarcotics special operations crucial to a successful program.

IR 5. Ecuadorian Public Recognizes that Coca/Cocaine Economy is a National Problem.

Sustained and successful counternarcotics efforts require that Ecuadorians see the coca/cocaine economy as their problem and as a serious obstacle to their peace and well-being. Public awareness of and support for the concerted effort to address the northern border problem outlined in this strategy is far from sufficient. Even in the high profile narco-guerrilla environment of Colombia recent polls report less than half the population had even heard of Plan Colombia; or “didn’t know” if they supported it. In Ecuador the level of ignorance or antagonism is no doubt even higher, with many viewing the problem as a Colombia problem, or merely reacting to anti-US political rhetoric against Plan Colombia, the Manta FOL or the claims of negative health effects in Ecuador due to spraying of coca in Putumayo. It is therefore critical that the US Mission, led by the PAS in coordination with the GOE, launch a systematic, well planned public affairs effort to educate the public, both to provide accurate information about ACI and its achievements, and to educate the public about the potential national threat of a coca economy in all its dimensions, including drug use in Ecuador. In this regard a multi-agency working group including USAID, PAS, NAS and MILGRP will be organized to develop this public diplomacy effort. Funding is being set aside for this purpose in the USAID, NAS and MILGRP budgets. USAID funds will probably be sub-obligated to a competitively awarded cooperative agreement or contract for this activity, and USAID will collaborate closely with PAS in providing technical oversight of the recipient’s program.

Overall responsibility for this effort will rest with PAS, but clearly extensive USAID and NAS program content inputs will be required. It is likely that a private firm will be contracted to develop a Knowledge-Attitudes-Practices (KAP) survey-based communication campaign that covers public awareness of the economic impacts, the security dangers, drug education and use issues, and that includes development and dissemination of Mission success stories in achieving results under this SO. Specific activities are expected to include workshops for informing journalists and opinion leaders about the northern border problems, program responses, and achievements; transporting these journalists/others to projects being successfully implemented in the field; TV and radio spots as well as media interviews with key Mission and GOE officials to address questions, and challenge misinformation; and production of press releases and more detailed newspaper articles on the program.

E. Beneficiaries

The six provinces of Esmeraldas, Sucumbíos, Carchi, Napo, Orellana and Imbabura have a combined population of about 1.2 million people, with an ethnic diversity that includes a wide variety of indigenous groups, afro-ecuadorians (estimated at 60,000), and mestizos. More importantly, well over 70% of this population is below the poverty level, and it is this population that is the primary target group of the program. For some of the interventions, such as those receiving infrastructure, direct beneficiaries will be more limited in number, but the impact of local government and community development, and the general improvement in stability, law enforcement, security, income and employment will have direct and/or indirect positive impact on the great majority of people living in these provinces. A number of indigenous groups reside in the region, including some 3,800 Awas in Carchi and a lesser number in Esmeraldas; a small

settlement of Chachi Indians in Esmeraldas; Quichua and Shuar migrant populations in Sucumbíos, and, in the same province, smaller numbers of Cofan, Siona and Secoya. In addition to Ecuadorian beneficiaries, limited services will also be provided for displaced Colombians crossing into Ecuador as a result of the violence and/or lost economic opportunities due to destruction of coca cultivation. To date these numbers remain small, but limited assistance to these groups will be part of program plans.

F. Partners

USAID's principal partner for overall program implementation is UDENOR. The main partners for IR1 are IOM, a US and/or Ecuadorian PVO charged with implementing the democratic local governance activity; provincial, municipal, and "Juntas Parroquiales" governments; and community organizations (including indigenous and Afro-Ecuadorian federations and the Catholic Church). The main partners under IR2 are IOM, a U.S. firm to be contracted to manage the rural competitiveness grant fund and technical assistance, small and medium producers, buyers, processors, and firms. The main partners under IR5 will be PAS, a local survey research firm, and a local civic education organization. Law enforcement and security enhancement partners under IRs 3 and 4 will include the NAS, DEA, and MILGRP, the Ecuadorian National Police, Ecuadorian Armed Forces, and CONSEP.²⁴

G. Complementarity with Other SOs

This northern border program shares similarities and potential areas of mutual support with all Mission Strategic Objectives. For example, in the case of the Ecuador-Peru Border Integration Program, SpO 11, there are potential programmatic links. Similar types of activities are being conducted in both areas, meaning that we can and will share methodologies, approaches, and field experiences working with indigenous federations in environmentally sensitive areas. Interchanges between the two programs of experiences in rural water and sanitation alternatives and local government strengthening is ongoing.

The Mission's Biodiversity team is planning a major activity to strengthen the capacity of indigenous communities to manage and protect their biodiversity and territorial and cultural integrity in the remotest areas of the north. This program is expected to focus on forested areas of globally significant biological value in Esmeraldas, Carchi, Sucumbíos, Napo and Orellana provinces, where state presence is extremely limited and threats from the Colombian conflict are real. In addition to contributing to better environmental management, these activities will also help build stronger communities, reinforcing traditional structures, norms and values that are already playing a clear role in constraining the growth of a coca/cocaine economy into Ecuador. An example is that mentioned earlier, of the Awa Federation's sanctions against two families found growing coca in remote border areas.

At the same time Ecuador's Awa Federation and territory are under increasingly serious threats from illegal logging, unauthorized colonization and corruption of local authorities and strong

²⁴ USAID will be coordinating these efforts with these groups but will not provide funds to them.

support is needed to help them to successfully defend their territory. This support will fortify those same norms and values that are now helping to block the spread of coca into this part of northern Ecuador. The situation further east in Sucumbíos is somewhat similar, where Ecuador's 2,000 Cofan manage world-class biological resources in the Cuyabeno Wildlife Reserve and maintain close contacts with their Cofan counterparts (approximately 4,000) in Colombia's Putumayo. The Biodiversity Team's activities will serve as a strong complement to this program.

The Mission's Poverty SO is aimed at improving economic opportunities for the poor nationwide. The Poverty Team will provide technical assistance to UDENOR to ensure that its microcredit fund for the north – "CREDINOR" – is well-planned and strengthens sustainable micro-finance services in the north. The Poverty Team's support to strengthen the capacity of the Superintendency of Banks to properly regulate microfinance institutions nationwide will serve to strengthen these services in the north. Additionally, trade capacity building and competitiveness activities planned by the Poverty Team will help the GOE to support agricultural exports nationally, which should have payoffs for the northern border productive sector.

The Democracy Program will complement the Northern Border Strategy in three areas: democratic local governance (including work with several municipalities); strengthening implementation of the new Code of Criminal Procedures through training efforts for judges, public defenders and others; and legal reform through elimination of legal trash and support for a new commercial code. These efforts will contribute to IRs 1, 2 and 3.

H. Coordination with Other Donors

UDENOR is formally charged with coordinating the northern border development efforts of donors. USAID has established a strong and collaborative partnership with UDENOR and consults with them and other donors on a regular basis. UDENOR is currently working with donors to organize the *Grupo Asesor Internacional para el Seguimiento del Programa de Desarrollo Preventivo de la Frontera Norte*. The USG has and will continue to play a role in the establishment and functioning of this group.

A donor's consultative group to leverage donor assistance for the Northern Border was held in Brussels in October, 2001. While information on donor commitments to support the northern border is still preliminary and under negotiation at this time, some agricultural productive projects have been approved:

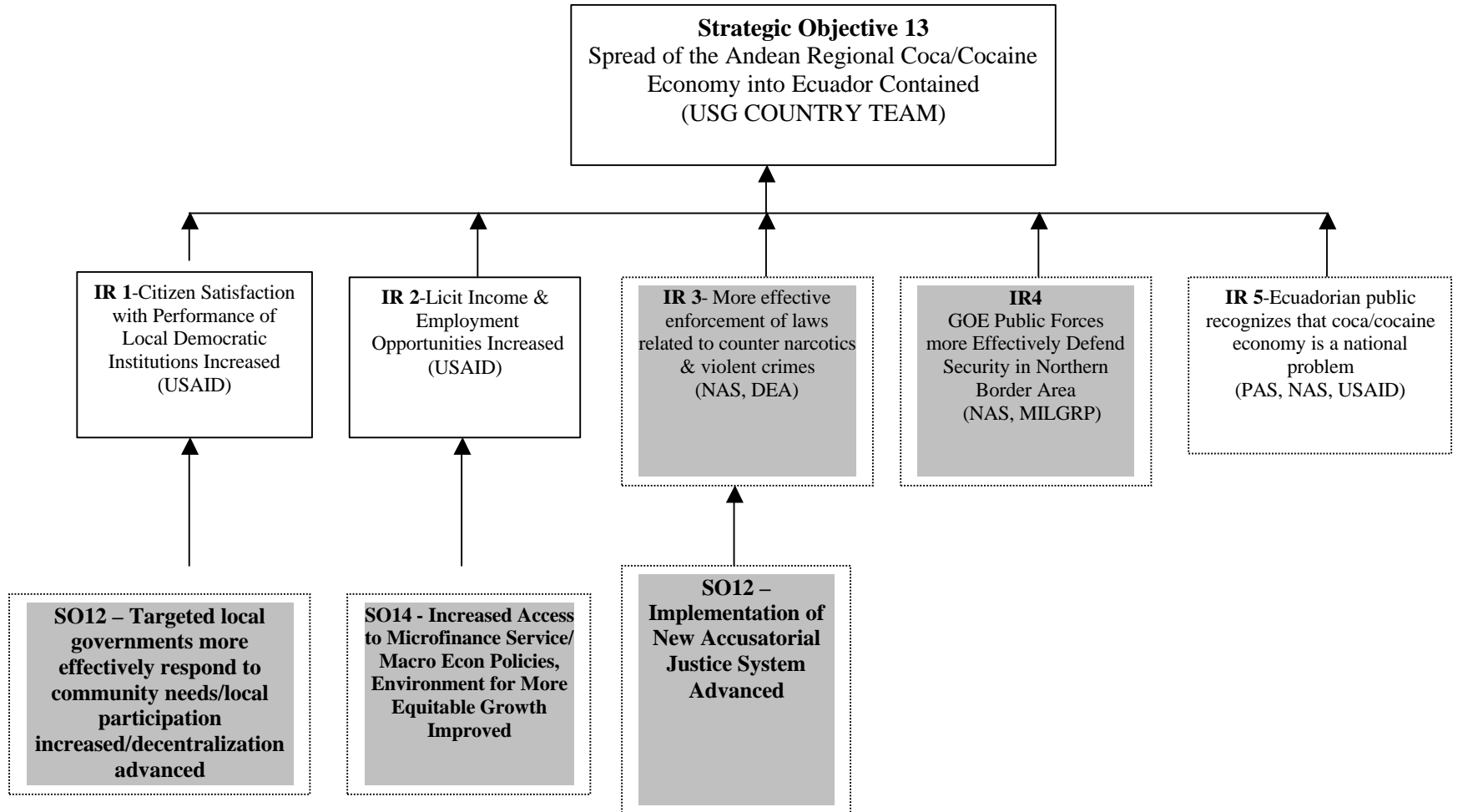
DONOR	PROJECT	PROVINCE	AMOUNT US\$M
IDB	Productive Act (coffee, cacao), Water and Sanitation, and Biodiversity Mgt	Napo, Orellana, Sucumbíos	\$10M (\$4M for productive activities)

OEA/ CICAD	Improved farm management	Sucumbíos	0,625
ECORAE FAO	Food Security in the Amazon	Sucumbíos, Orellana	2,269
TBD	CREDINOR – Micro-credit fund for northern border enterprises	Esmeraldas, Carchi, Sucumbíos, Orellana, Napo	TBD
Belgium	Meat and cattle	Imbabura, Carchi, Esmeraldas	3,300
	Dairy products commercialization	Carchi, Imbabura	0,900
Canada/FECD	Coffee and cacao production and commercialization	Napo	0,310
	Small farms production	Esmeraldas	0,439
	Production in the Chota-Mira Watershed	Carchi, Imbabura	0,505
	Cacao production and commercialization	Esmeraldas	0,536
	Production and food security	Carchi, Imbabura	0,470

In addition to the donor projects listed above, Ecuador's major oil pipeline project - the Oleoducto de Crudos Pesados (OCP) - which is currently under construction in the north, is investing about \$15 million in community infrastructure, and the Canadians are providing TA for a gas liquification in Sucumbíos. The Canadian aid agency has sent a team of Canadian Indians to provide this TA, which is directed at better management and control of white gas - a key input in cocaine processing.

I: RESULTS FRAMEWORK

ECUADOR NORTHERN BORDER DEVELOPMENT



III. IMPLEMENTATION PLAN

A. Implementation mechanisms

1. USAID-GOE Strategic Objective Bilateral Agreement

GOE and USG agreement to implement this Northern Border program will be documented through signature of a new Strategic Objective Agreement (SOAG) by the Ministry of Foreign Relations of Ecuador, the *Unidad de Desarrollo Norte*, and USAID. This SOAG will serve as the mechanism to obligate the USAID resources available for the program, and will be amended annually to increase the funding up to the total amount committed. Under the bilateral agreement, and per the provisions of the Decree establishing UDENOR's operations, USAID should have unilateral authority to execute sub-agreements for the implementation of the program, in collaboration with UDENOR.

2. Cooperative Agreement Amendment with the International Organization for Migration (IOM)

Based on IOM's experience gained during the implementation of the first phase of the program, positive evaluation of the program²⁵, and recommendation by UDENOR to continue with this arrangement, USAID plans to amend the Cooperative Agreement (CA) with IOM, to continue to carry out and expand activities contributing to achievement of IR#1 and IR#2. IOM at the same time may enter into sub-agreements with local NGOs or other institutions with appropriate experience for the implementation of these projects. Also, selected studies, planning and mapping support will be contracted for UDENOR through this CA.

3. Contract and Inter-Agency Agreement for Productive Activities under IR#2

It is anticipated that an IQC task order be signed with a U.S. firm to implement a grant fund and technical assistance to support rural competitiveness in the north, as further described in Annex

E. *Other Implementation Mechanisms*

USAID/Ecuador may be signing additional grants and/or cooperative agreements with key U.S. and/or Ecuadorian PVOs, particularly to carry out democratic local governance activities under IR#1. Unsolicited applications have already been received in this respect, although the Mission anticipates formally soliciting applications to implement this activity. As noted above, this recipient will need to coordinate activities with the ARD IQC for Democracy and Decentralization, which may fund municipal activities in this region. NAS and DEA will be the responsible agencies for implementing IR#3; NAS and the MILGRP will be responsible for implementing IR#4; and USAID will collaborate with PAS in the award and management of a USAID-funded Inter-Agency agreement and/or cooperative agreement or contract for IR#5.

²⁵ Gersony, August 2001 and April 2002.

A portion of program resources will be used by USAID to contract a long-term USPSC as a Senior Development Specialist for the Northern Border Strategic Objective, and one to two senior FSN-PSC Activity Managers. Also, given the growing complexity of the program, additional external assistance to carry out assessments and evaluations will be contracted.

4. Coordination with the GOE and local officials

Although USAID will unilaterally award the above agreements and/or contracts for this program and directly monitor the implementation, it is important to note that the funding for this activity is based on the USG commitment to support Ecuador in the context of the broader Andean Regional Initiative, and the Andean Counterdrug Initiative. For this reason, it will be necessary to establish effective mechanisms to allow joint monitoring of the implementation of the program with GOE officials, especially the Unidad de Desarrollo Norte, UDENOR. At least semi-annual meetings will be held at which all the implementing institutions will brief GOE officials on progress of the program, while more regular (at least monthly) formal meetings will be held between USAID and implementing partners for monitoring and reporting. In addition, implementing partners will be encouraged to closely coordinate with municipal officials, other donors, non-governmental organizations and community groups to ensure adequate coordination of the program.

5. USAID Procurement plan

Activity Element	Instrument Type	Estimated Value	Method	Authorized Agent	Expected Award Date	Proposed Source
All activities	Strategic Objective Agreement (SOAG) with the Ministry of Foreign Relations and the Unidad de Desarrollo Norte to establish new program objectives and activities	\$60 million	Negotiated	DIR	April 2003	Ecuador
IR#1 Citizen Satisfaction with Performance of Local Democratic Institutions Increased.	Cooperative Agreement Amendment w/ the International Organization for Migration (IOM) for the rehab. and construction of potable water, sanitation systems, related social infrastructure, and capacity building for sustainability	TBD	Negotiated	RCO	May 2003	PIO
	Grant, CA or Contract for local government dev. and improved governance	TBD	Competitively awarded	RCO	July 2003	USA or Ecuador

IR#2 Licit Income and Employment Opportunities Increased	Contract for TA in marketing, etc. & mgt. of rural competitiveness fund	TBD	Competitively awarded IQC	RCO	May 2003	USA
	Under CA with IOM – prod. infrastructure (roads, bridges, irrigation systems, and related infrastructure)	TBD	Negotiated (under same CA amendment in IR#1 above)	RCO	May 2003	PIO
IR#5 Ecuadorian Public Recognizes that Coca/Cocaine Economy is a National Problem	Inter-Agency Agreement and/or Cooperative Agreement to be developed and managed in collaboration with PAS	TBD	Competitively Awarded	PAS/RCO	July 2003	USA or Ecuador
Mission field reviews, assessments and evaluations	Contract(s) for monitoring and evaluation services	TBD	Competitively awarded	RCO	Aug. 2004 and 2006	USA or Ecuador
Mission Support staff	US PSC – Senior Development Specialist	TBD	Negotiated based on competition	RCO	June 2004 (2 year contract was awarded June 2002)	USA
	One to Two FSN PSC – Activity Managers	TBD	Negotiated based on competition	EXO	March 2003; 2004; 2005	Ecuador

B. USAID Implementation schedule

The following table presents the illustrative implementation schedule for this program:

<i>Activity</i>	<i>Target Date</i>
Approval by USAID/Ecuador of SO	November 2002
Approval by USAID/W of SO	January 2003
Approval by USAID/Ecuador of Activity Approval Document (including all the initial pre-obligation requirements)	February 2003
Allocation of ACI additional Funds to USAID/Ecuador	2 nd Quarter FY 03*
Strategic Objective Agreement signed with Minister of Foreign Relations and the Unidad de Desarrollo Norte	April 15, 2003
Cooperative Agreement Amendment signed with IOM for implementation of IR#1 (water, and sanitation systems, and associated local capacity building subactivities); and IR# 2 (roads, bridges, irrigation systems, and related infrastructure subactiv.)	May 2003
Grant/CA or Contracts for local government strengthening and democratic governance activities under IR#1	July 2003
Contract signed for productive activities and marketing TA & management of the rural competitiveness fund under IR#2	May 2003
Inter-Agency Agreement and/or Cooperative Agreement to be developed and managed in collaboration with PAS for IR#5	July 2003
Field reviews, assessments and evaluations	August '04, '06
SO completion date	September 30, 2006

*If second quarter funds not received, target dates for this and subsequent activities will be delayed at least 3 months

C. USAID/Ecuador Northern Border Program management

USAID/Ecuador has established a Northern Border Strategic Objective Team to manage the Northern Border program. The Team's staff complement includes a US Direct Hire Foreign Service Officer Team Leader; a Personal Services Contractor as lead technical specialist; one to two to-be-contracted Foreign Service National (FSN) Activity Managers; and senior FSN Project Development, Contracting, and Financial Management specialists. The Team receives U.S. Direct Hire legal, contracting, EXO and financial management services from USAID's service center based in Lima. The Team works under the overall direction of the USAID/Ecuador Mission Director, and collaborates closely with other members of the US Embassy's Ecuador country team including the State Department's Narcotics Affairs Section (NAS), Public Affairs Section (PAS), the MILGRP, and the DEA. It is anticipated that USG country team coordination will be strengthened through a recently established Northern Border working group.

IV. PROGRAM FUNDING

THIS SECTION HAS BEEN DELETED IN ITS ENTIRETY BECAUSE IT CONTAINS PROCUREMENT SENSITIVE INFORMATION

V. MONITORING AND EVALUATION

A. Performance monitoring

The following chart summarizes the performance monitoring plan for the Ecuador Northern Border Program. Note that at the SO level, the USG country team will track a set of contextual indicators to gauge the extent of spillover and the success of the GOE and international community in containing the spillover. We recognize that in the case of most of these SO level contextual indicators, the attribution of the Country Team's efforts is minimal at best. However, it is central that we track these to improve our understanding of the spillover problem and what can be done to address it.

USAID is accountable for impacts measured by indicators for IRs 1, 2 and 5. Although few of the indicators listed in the chart below refer specifically to "northern border provinces", most of these will in fact be reported in relation to this region—e.g., water systems built in northern border provinces.

ILLUSTRATIVE PERFORMANCE MONITORING FRAMEWORK

Result	Indicator	Data Source
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Result	Indicator	Data Source
SO - Growth of a Coca/Cocaine Economy in Ecuador Contained.	(a) No more than 500 hectares of coca in Ecuador at program completion date; (b) number of refugees in Ecuador; (c) number of violent deaths in north; (d) GNP growth	NAS/DEA GOE Foreign Ministry Ecuadorian Police Central Bank
IR 1 – Citizen satisfaction with performance of local democratic institutions increased	(a) % of a representative sample of citizens who express satisfaction with local government performance (b) # of new/repared village potable water systems, (c) # of municipalities receiving TA and training to design and implement municipal plans and budgets, (d) # of municipalities holding public meetings to create and/or review municipal plans and budgets	Univ. of Pittsburgh Democratic Values Survey Program implementors' semi-annual reports.
IR 2 Licit Income and Employment Opportunities increased	(a) \$ value of licit economic activities, (b) # of people employed in licit economic activities (a) # of miles of roads constructed/repared, (c) # of irrigation systems constructed &/or repaired (d) # of farm families receiving technical assistance on production and marketing techniques, (e) # of farm families with access to productive infrastructure, (f) sustainable agricultural products cultivated to better respond to the poor farmers' needs (g) # of families receiving land titles	GOE Agricultural census USAID Program implementors' semi-annual reports

Result	Indicator	Data Source
IR 3: More effective enforcement of laws related to counter narcotics & violent crimes	(a) # of arrests for violent and/or drug-related offenses (b) # of kgs of cocaine HCL confiscated (c) new police infrastructure built (d) # of police trained in counternarcotics enforcement (e) # of cocaine labs closed	NAS/DEA
IR 4: GOE Public Forces more effectively defend security in northern border area	(a) # of new military facilities operational in northern border provinces (b) # of new units of modern military communication equipment installed and operational (c) # of military personnel trained in counter narcotics operations	NAS MILGRP
IR 5: Ecuadorian public recognizes that coca/cocaine economy is a national problem	(a) percent of a nationally representative sample of Ecuadorians who believe coca and cocaine constitute a problem for Ecuador (b) increase in media reports showing dangers of coca/cocaine economy for national security	Drugs, Security, & Development Survey PAS and NAS reports Opinion surveys, press Reports

Final indicators will be identified in collaboration with counterparts in accordance with ADS timelines. Baseline information, annual targets, clear definitions of each indicator, and the design of specific, reliable and verifiable indicators will be emphasized during this process. We plan to work closely with each implementing partner to assure that the indicators chosen and the results reported are of maximum utility and reliability. Mission has authority to establish and approve this performance monitoring framework.

B. Program evaluations

One mid-term and one final assessment/evaluation are planned. The focus of the mid-term assessment/evaluation will be on determining the status of implementation and identifying any program modifications that are required in order to assure achievement of the overall objective. The final assessment/evaluation will focus on program impact and lessons learned.

C. Feasibility Analysis

The USAID Automated Directives System (ADS) specifies different types of feasibility analysis, which should be considered. Most of these analyses have already been presented in this

document and/or the original SpO 13 documentation, to resolve any questions concerning the financial and technical viability of the program. The following paragraphs provide a brief explanation of how the program addresses other feasibility concerns:

Social/Gender analysis

The two social soundness issues that deserve attention are gender considerations and linguistic/ethnic issues. These considerations were taken into account in the original design of the program's activities under the Northern Border SpO, and continue to be equally operative.

Efforts will be made in all elements of the program to expand the participation of women in the activities. Particular attention will be given to women's participation in local government and community organizations, as well as productive activities. Our implementing agencies will be required to include gender analysis in their proposed program of action. Women will often be the primary beneficiaries of the construction of household water systems, as well as of the construction of roads and bridges which will give women the opportunity to have better access to health services. Also, women's rights will be protected in obtaining land titles under IR2 of the program.

Ethnic and linguistic issues are also important to the program, as several indigenous groups live in the target areas for the program, i.e. the Awa, Chachi, Cofán and Afro-Ecuadorian communities. These indigenous groups are getting special attention in many of the planned projects (e.g. pedestrian bridges in the Awa Reserve).

Environmental feasibility

An Initial Environmental Examination has been prepared and will be submitted to the Latin America and the Caribbean Bureau Environmental Officer for the Threshold Decision. No obligations will take place before this decision has been received.

Critical assumptions

The success of this program assumes that national governments of the countries involved in the implementation of ACI continue to support the U.S. Government's role as a partner in this Program.

Also it is assumed that local governments as well as target populations will help design, support, and contribute to planned activities.

The program assumes that the Government of Ecuador will continue to concur with implementation of this Program through the implementers proposed under this Strategy, rather than through direct management.

Success of income generating activities is predicated on low inflation, fiscal discipline, and regaining competitive and comparative advantage in the agricultural sub-sectors that the program will support.

Success will be predicated upon the GOE, UDENOR's continued role as an effective program facilitator and coordinator of other donors in the northern border region, and upon the successful security, law enforcement and public diplomacy support efforts of other USG agencies.

Success will depend on the availability and timeliness of receipt of program funds.

It is a reasonable assumption that target areas will count with adequate security and political stability that will permit normal implementation of activities.

ANNEX A – RESULTS FRAMEWORK

SPECIAL OBJECTIVE 13: ECUADOR NORTHERN BORDER DEVELOPMENT

Special Objective: Improved quality of life of the population living along the northern border

Timeframe: FY 2002

Partners: Ministry of Foreign Relations, International Organization for Migration (IOM), Unidad Ejecutora de Desarrollo de la Región Norte, Ministry of Health, Fondo Ecuatoriano Popularum Progreso (FEPP), Catholic Church Office of Human Rights, Defensoría del Pueblo of Lago Agrio, Altropico Foundation, Awa, Chachi, Cofán, municipalities, NGOs, UNHCR, and other donors.

Indicators: (a) No. of beneficiaries in the target region whose lives are improved by participation in access to social and infrastructure services.

th conditions
in vulnerable villages

ie: FY 2002

IOM, municipalities,
f Health, indigenous
cuadorian
es, and NGOs.

(a) # of village
ter systems
d/repared/expanded in
s, (b) # of sewerage
nstructed/repared/
n target areas.

IR 2: Roads and related
infrastructure improved in
vulnerable areas.

Timeframe: FY 2002

Partners: IOM,
municipalities, indigenous
and afro-Ecuadorian
communities, and NGOs

Indicators: (a) # of miles
of roads
constructed/repared, (b) #
of pedestrian and vehicular
bridges
constructed/repared.

IR 3: Civil society strengthened to better
respond to local needs and to the
challenges of Plan Colombia.

Timeframe: FY 2002

Partners: IOM, municipalities,
indigenous and afro-Ecuadorian
communities, FEPP, Altropico
Foundation, Catholic Church, Defensoría
del Pueblo.

Indicator: (a) # of beneficiaries receiving
land titles, (b) # of beneficiaries receiving
information on possible environmental
impacts of Plan Colombia and productive
activities; (c) # of beneficiaries receiving
information and/or assistance on drug
prevention.

IR 4: As approp
needs of displace
met without dest
the local social
infrastructure.

Timeframe: FY

Partners: IOM,
municipalities, ir
and afro-Ecuado
communities, UN

Indicators: (a) ;
displaced person
(b) # of receptor
communities wit
new/improved b;
infrastructure an
services.

NOTE: IR4 activities will be implemented in the event that a large scale of migration occurs

Annex B

Special Report: Border Regions of Ecuador: 2001

Draft Version

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Introduction

USAID has special programmatic interests in both the Northern and Southern border regions of Ecuador. The former is of interest because of concern with the possibility of the spreading of the Colombian conflict into Ecuador, while the latter is of interest because of the investments that were made there on the heels of the settlement of the border conflict between Ecuador and Peru. For this reason, when the 2001 University of Pittsburgh Latin American Public Opinion Project was asked to carry out a baseline study of democratic values and practices in Ecuador, it was agreed that that a special focus would be given to these two regions.

This report is a companion to the larger report, *Democracy Audit: Ecuador, 2001*, and should be read in tandem with that report. The themes covered here largely, although not entirely, mirror that larger report. In the present study there will be no attempt to reproduce the lengthy textual discussions found in the national report. Rather, the focus will be on comparing the border regions to the nation as a whole.

The results of the survey presented here show that in a number of ways, the Northern border region differs from the rest of the country. But, we often find more intra-Northern border variation than border-country variation. These findings strongly suggest a very carefully targeted strategy for the Northern border. Moreover, while there are differences between the North and the rest of the country, there are many areas in which the differences are small or even insignificant. This region is not the *rara avis* that some would make it out to be. Attitudinally and behaviorally it is very much a part of the greater Ecuadorian political culture.

Methodology

The overall sample design for the national sample was reported upon in some detail in the larger report. That discussion will not be repeated here. It is important to state, however, that the results for the northern and southern border regions provided in the present report are derived from samples that are entirely independent of the national sample that was reported upon in the larger report. Specifically, after the national sample of nearly 3,000 households was selected for the study of democratic values and behaviors in Ecuador, two new, independent samples were drawn, one for the northern region and a second for the southern region. Since the north is understood to be both more diverse and of greater immediate policy importance to USAID, a much larger sample was drawn in the north than in the south. The following table (Table 1 below) provides an overall look at the sample sizes for these three strata: 1)National; 2)Northern Border; 3)Southern Border. The sample sizes shown are the weighted ones, the weighting scheme having been described in the full report.

Table 1. Distribution of sample strata by Province**Province * National vs. border sample strata Crosstabulation**

Count		National vs. border sample strata			Total
		National	Northern border	Southern border	
Province					
	Azuay	146			146
	Bolívar	14			14
	Cañar	27			27
	Carchi	14	559		573
	Cotopaxi	29			29
	Chimborazo	88			88
	El Oro	152			152
	Esmeraldas	96	831		927
	Guayas	883			883
	Imbabura	102			102
	Loja	81		551	632
	Los Ríos	108			108
	Manabí	251			251
	Morona Santiago	24			24
	Napo	22			22
	Pastaza	19			19
	Pichincha	717			717
	Tungurahua	99			99
	Zamora Chinchipe	20			20
	Sucumbios	22	559		581
	Orellana	11			11
Total		2,925	1,949	551	5,425

By design, the national sample is much larger than either of the two border samples. That is because the main focus of the study was on Ecuador as a country, and we wanted to have fairly small sampling error for the country as a whole. The combined northern border sample gives us a confidence interval of about $\pm 2.2\%$, while the southern border sample has a confidence interval of about $\pm 4.3\%$.

Another feature of the sample design is that the national sample includes each of the provinces in the two border samples. That means, that when we make reference to the national sample, we are including both border regions, but their inclusion is in direct proportion to their population sizes in the nation as a whole. Since the populations in these two border regions are small compared to Ecuador as a whole, there would have been insufficient numbers of respondents to be able to draw any generalizations about the borders. For that reason, we have separate, independent samples of the borders for this analysis. It is important to stress that the samples themselves (national vs. border) are entirely independent. This means that when we compare the national results with the border results below, we are not reporting on any of the same respondents, but individuals who were interviewed for one sample and not the other.²⁶

²⁶ In effect, this means that we were sampling “with replacement” in the border regions when we carried out the two samples (national vs. border).

In the analysis that follows, comparisons will be made between Ecuador and the two special border samples carried out for this study. Many differences will be found, some of them are products of the different socio-economic situation in the border regions vs. the country as a whole. Normally, in most social scientific investigations these differences would be noted and partialled out of any analysis in order to isolate what is different between the border zones and the rest of the country. In this study, however, those socio-economic differences are taken as givens within which USAID must plan and work in these regions. It is of little interest to AID, for example, that attitudes toward democracy might be different in the North of Ecuador in part because of lower overall incomes in the North vs. the rest of the country. Rather, what AID needs to know is that those differences exist.

A. Confidence Intervals: Boring, Technical, but Important

The presentation of these results, and most of the results in this entire special report will be somewhat different from the full report. Our specific interest here is very narrowly focused on one issue: in what ways, if any, do the border regions differ from the nation as a whole. For that reason, it becomes important to focus on what the reader might assume is an obscure issue in methodology, namely, confidence intervals. Confidence intervals give us our “margin of error,” so to speak, that is the range in the results obtained that is due to the fact that we drew a sample and did not interview all voting-age adults in Ecuador. This range, known as the “confidence interval” tells us that our sample real results would differ by this range from the results that would have been obtained by interviewing everyone, 95% of the time. For example, if we had had the resources to interview all voting-age Ecuadorians and had found that the average opinion for the nation on a given item was 50 on a 0-100 scale, then we would expect to find in our sample a result no lower than 48 nor higher than 52 (since our confidence interval for the national sample is somewhat less than 2%, around 1.8% to be exact) 95 times out of 100 times such a sample had been drawn. This means that five times out of every 100 times we draw a sample of about 3,000 respondents, our results would be expected to differ by more than this confidence interval of $\pm 1.8\%$. Since the samples for the border areas are smaller, the confidence intervals are wider. In the presentations made below, we show these confidence intervals and the reader should realize that whenever a result is within this confidence interval, the differences should be considered entirely a function of sampling error rather than an indicating of a substantive difference. It could be the case that the difference is a real one, but the chances are (95% of the time) that they are not.

The Demography of the borders

This section compares the gender and age profiles of the three domains of study being analyzed here: 1) the nation; 2) the Northern border, and 3) the Southern border. As can be seen in Figure 1 below, there is no difference in the distribution of the samples by gender. An additional analysis carried out within the three provinces in the Northern border zone also shows no differences and is not displayed here.

It is important to explain how to interpret this chart. The box in the center of each vertical line indicates the mean of the sample for that stratum (e.g., the mean of the national sample is 49% male, which in this instance turns out to be the same as the other two strata). The large “I” lines intersecting with these boxes indicate the range of the confidence intervals, so that for the national sample, the confidence interval ranges from a high of a little over 50% to a little under 48%. Note that the width of the confidence interval is determined by the sample size (shown at the bottom of the chart in the row labeled “N.” The wider “I” for the Southern border is an indication of the much smaller sample size utilized there than for the nation as a whole.

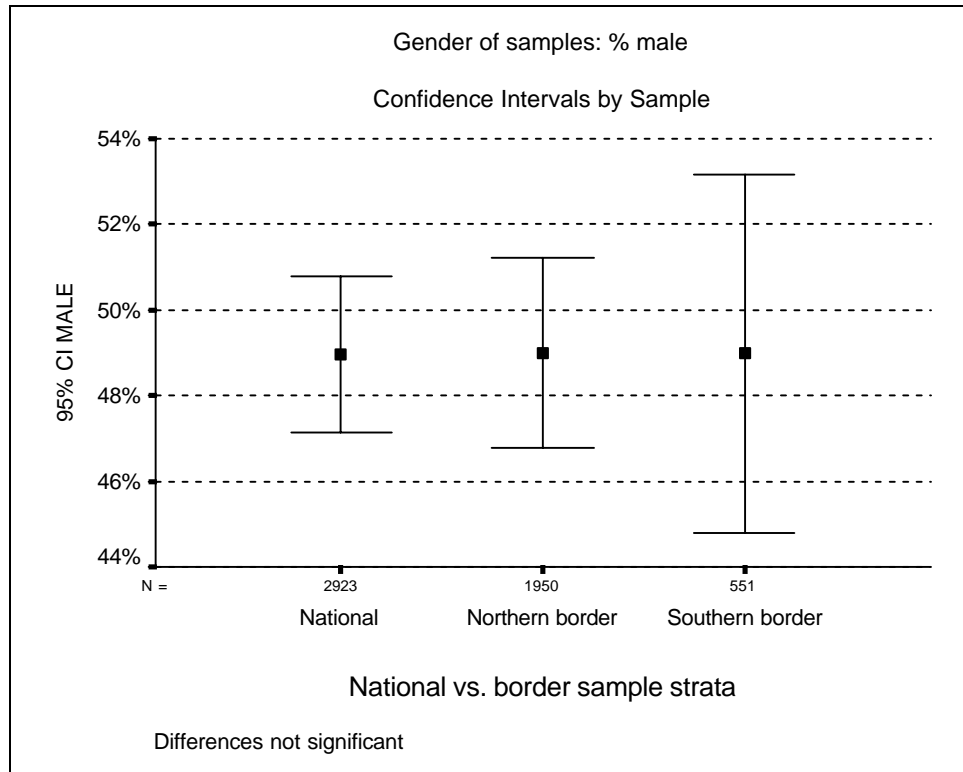


Figure 1 Gender of samples: % male: confidence intervals by sample

We next turn to age and examine the average age of the three sample strata. The results are shown in Figure 2 below. As can be seen, while the Northern border does not differ significantly from the national norm, the average age in the southern border region is significantly higher. Since birth rates are normally higher in rural areas than they are in urban, this higher age in the South is probably a reflection of the migration of the young away from the area.

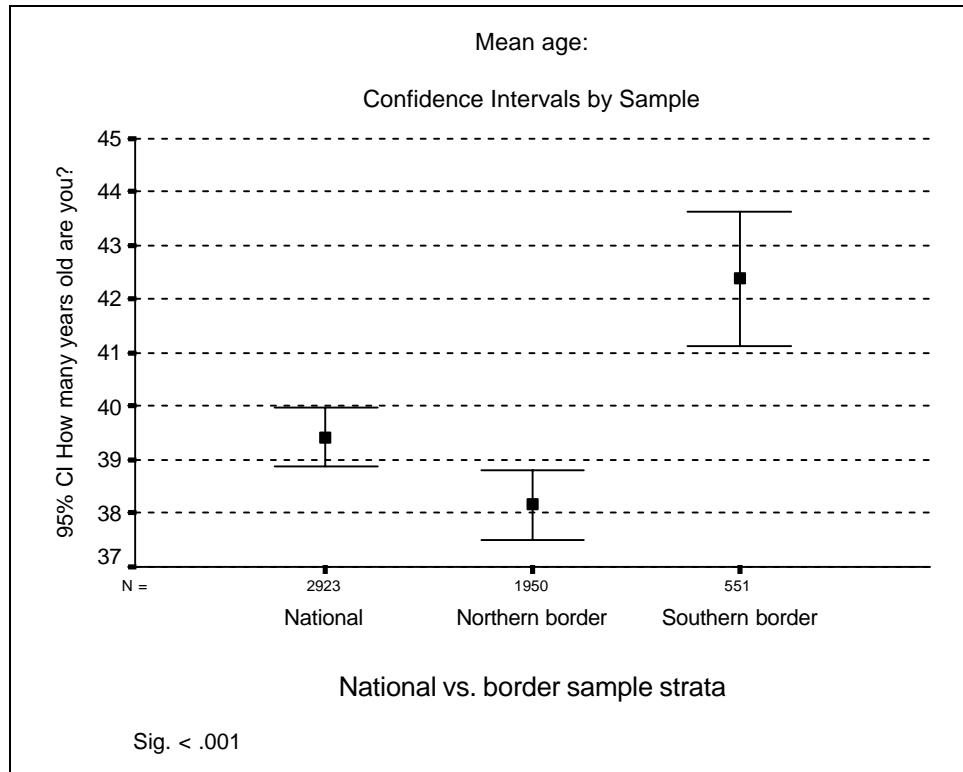


Figure 2 Mean age: Confidence intervals by sample

When we examine this data in more detail, looking at the individual provinces in the Northern border region, a different picture emerges, as is shown in Figure 3 below. There we see that Carchi is above the national average in age, Esmeraldas matches the national average while Sucumbios is significantly lower.

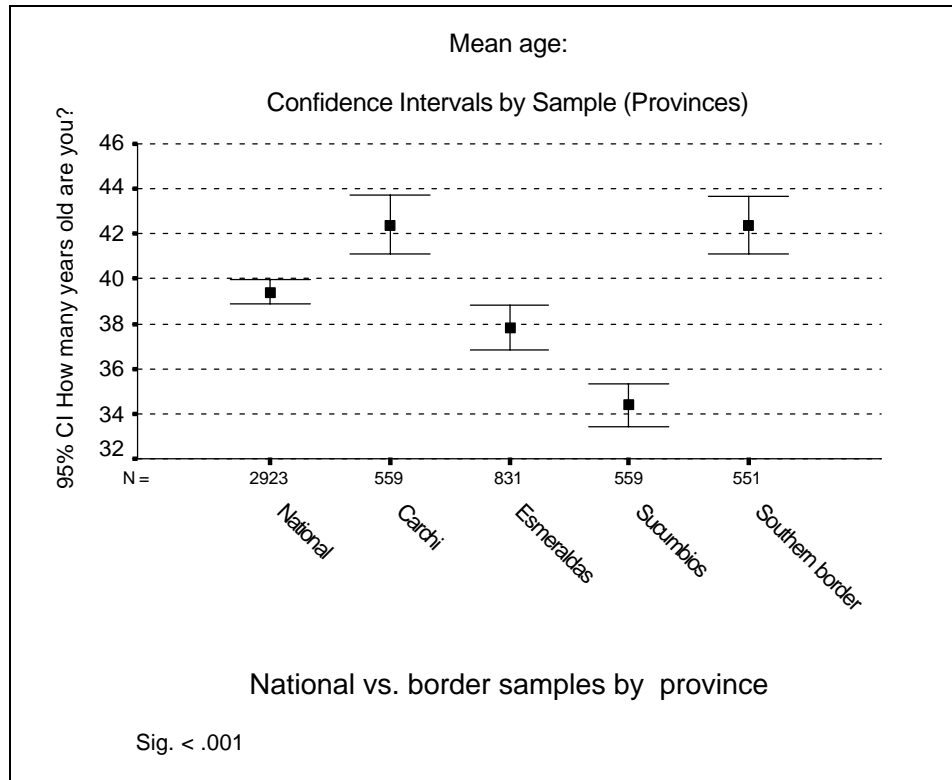


Figure 3 Mean age: Confidence intervals by sample (provinces)

It is also important to observe that each of the three provinces in the Northern border area have average ages that are significantly different from each other. To the extent to which age is an important factor in programming of foreign assistance (e.g., programs directed at the youth, for example), these differences should be examined carefully. While the data presented in this report focus on the average age, the raw data set has the actual age of each respondent. We can group the ages into cohorts and reveal some of these differences, as is shown in Figure 4 below. For example, notice how much smaller a percentage of the entire population the youngest cohort (18-25) comprises in Carchi as compared to Sucumbios. At the same time, Sucumbios has a smaller percentage of older residents.

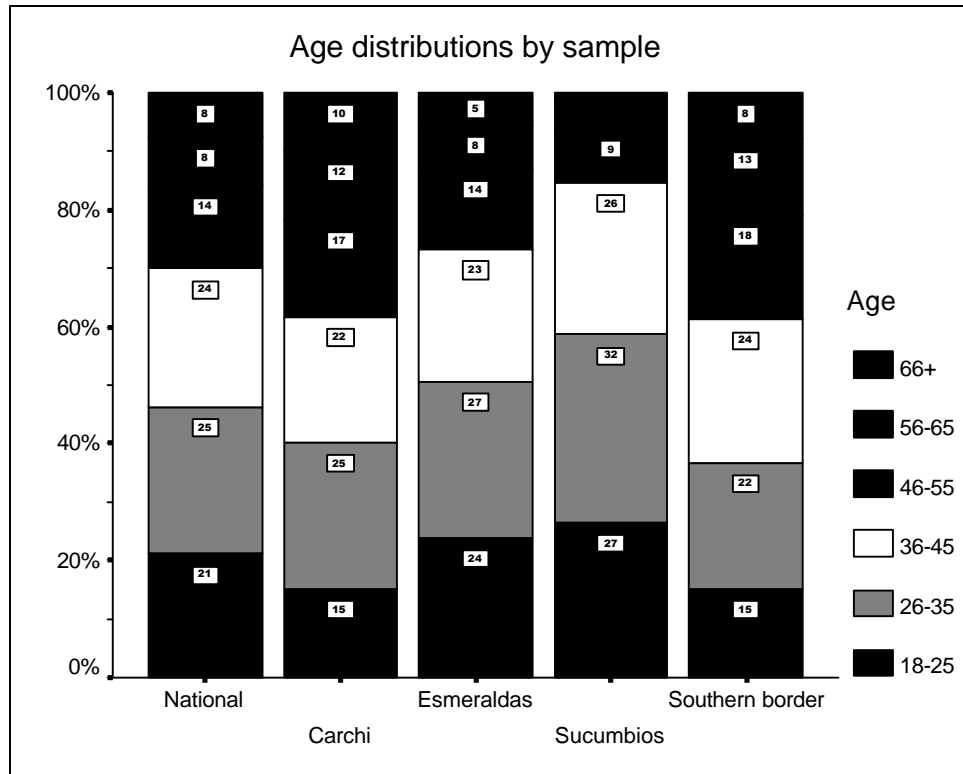


Figure 4 Age distributions by sample

In terms of marital status, there is little difference among the strata, as is shown in Figure 5 below, except that Sucumbios and the Southern border have a somewhat higher percent married.

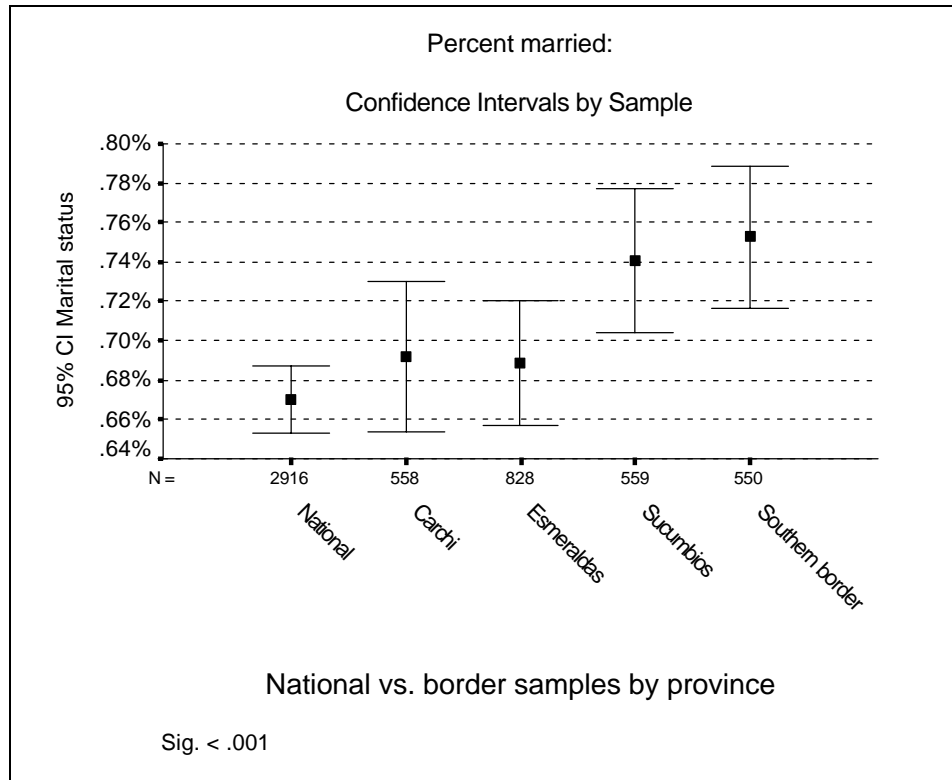


Figure 5 Percent married: Confidence intervals by sample

The mean number of children per respondent does vary, as is shown in Figure 6 below. We see that Esmeraldas and the Southern border respondents average one more child than the rest of the samples.

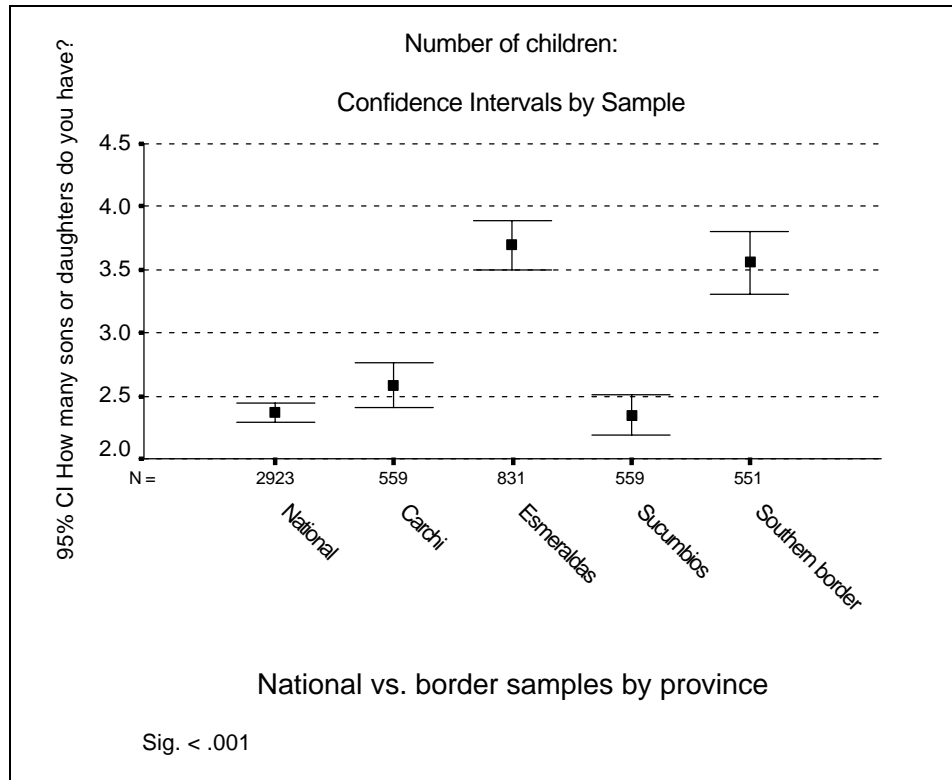


Figure 6 Number of children: confidence intervals by sample

Socio-economic Status

Education is among the most important variables in any social-scientific investigation, and there is notable variation across the samples. The results are shown in Figure 7 below. As can be seen, the border samples have significantly lower levels of education than does the nation as a whole, while Esmeraldas is especially low.

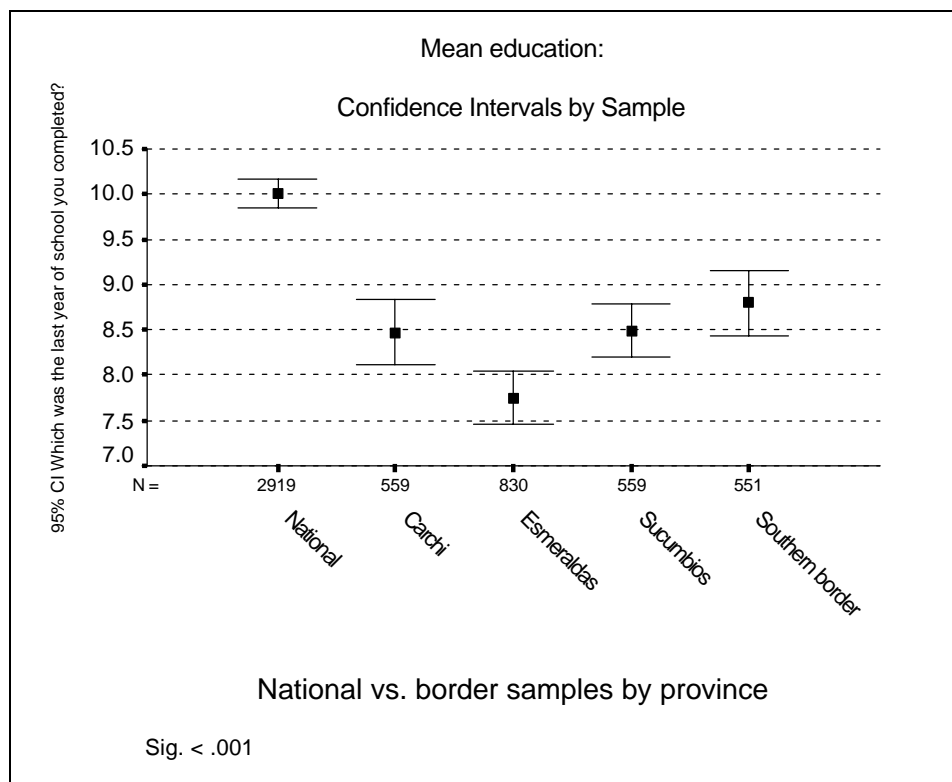


Figure 7 Mean education: confidence intervals by sample

Grouping education by primary, secondary and university makes these differences even clearer. The results are shown in Figure 8 below. Among the Northern border provinces, Carchi has the highest proportion of its residents with university education, although is still far below the national norm. On the other hand, more residents of Sucumbios have high school level education than any other sample stratum, but the lowest percentage of university educated respondents. These findings show that the mean levels of education need to be examined with the finer detail shown in this breakdown if one wants to have a clear picture of the level of education in these areas.

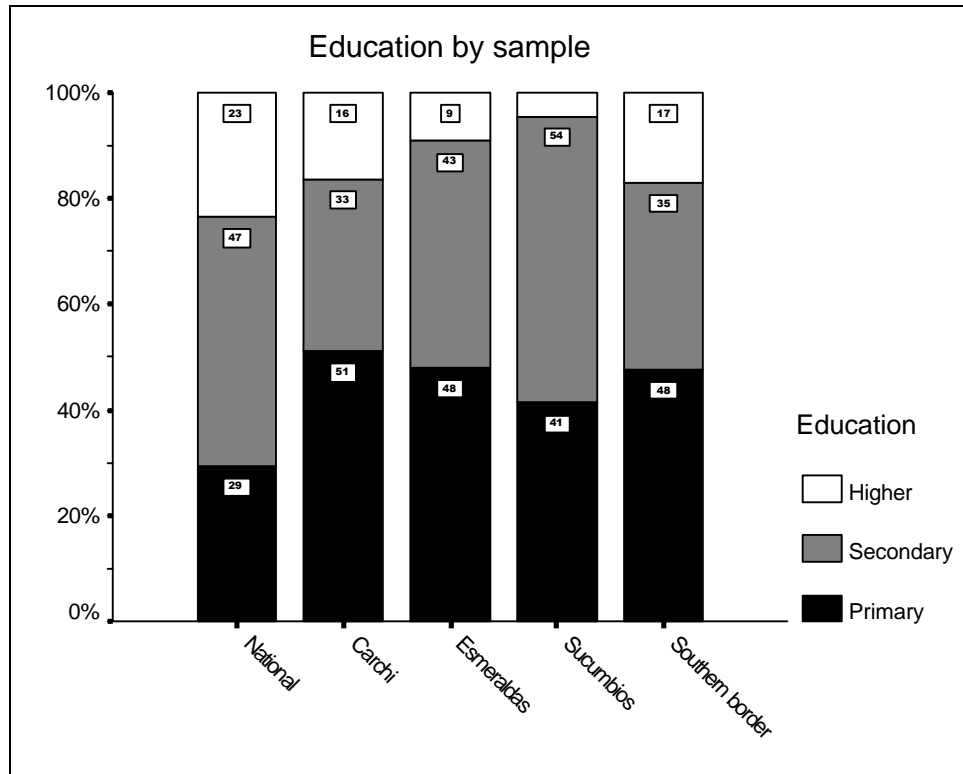


Figure 8 Education by sample

We now turn to income, basing our results on the 0-13 scale of the original questionnaire. To remind the reader, the question is reproduced below, showing the income ranges.

Q10. ¿En cuál de los siguientes rangos se encuentran sus ingresos **familiares** mensuales? [*Incluir remesas del exterior*]

[*Mostrar lista de rangos Tarjeta D*]

(00) Ningún ingreso

(01) Menos de \$25

(02) Entre \$26- \$50

(03) \$51-\$100

(04) \$101-\$150

(05) \$151-\$200

(06) \$201-\$300

(07) \$301-\$400

(08) \$401-500

(09) \$501-\$750

(10) \$751-\$1,000

(11) \$1,001- \$1,500

(12) \$1,501-\$2,000

(13) \$2,000 y más

(88) NS/NR

The results of the analysis are shown in Figure 9 below, where it is seen that each of the border samples have incomes significantly below those of the nation as a whole, while Esmeraldas has a level of income significantly below the other border provinces.

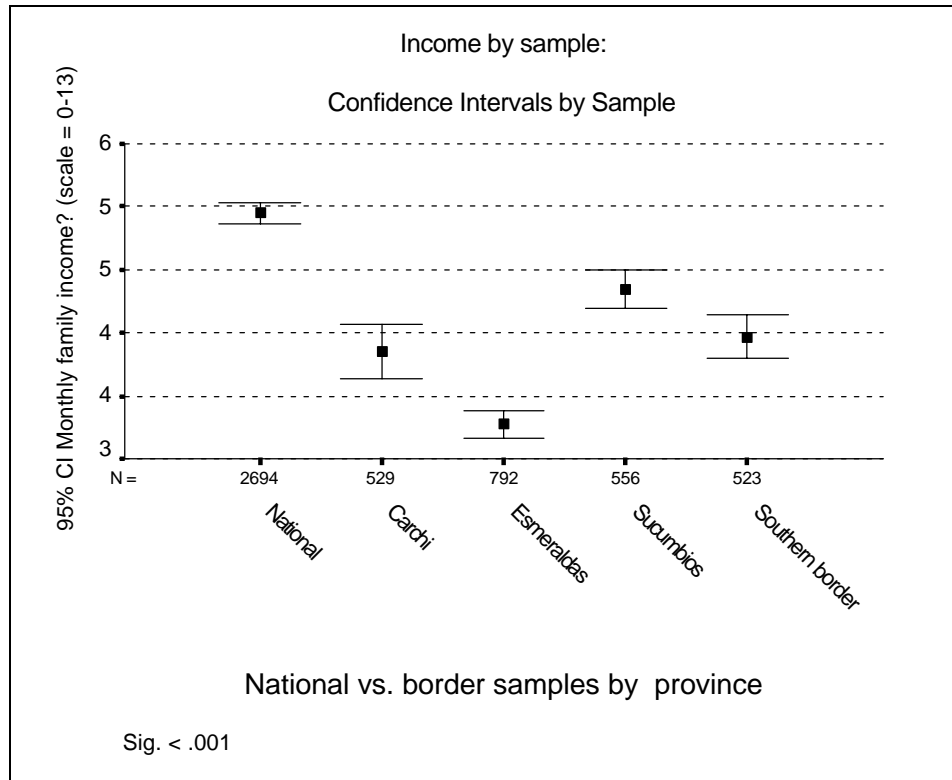


Figure 9 Income by sample: confidence intervals by sample

We also have data on the wealth of the respondents, measured by their ownership of a long list of artifacts. The overall index was used in the full report. The results are shown in Figure 10 below. While the patterns are similar to the income data, important differences emerge. While we found that when measured by income Carchi was higher than Esmeraldas, but lower than the nation as a whole, we now see that Carchi has levels of wealth about equal to the nation. Esmeraldas in both income and wealth scores at the bottom. The monthly incomes in Sucumbios area not significantly different from the Southern zone, but when it comes to wealth, they prove to be significantly lower.

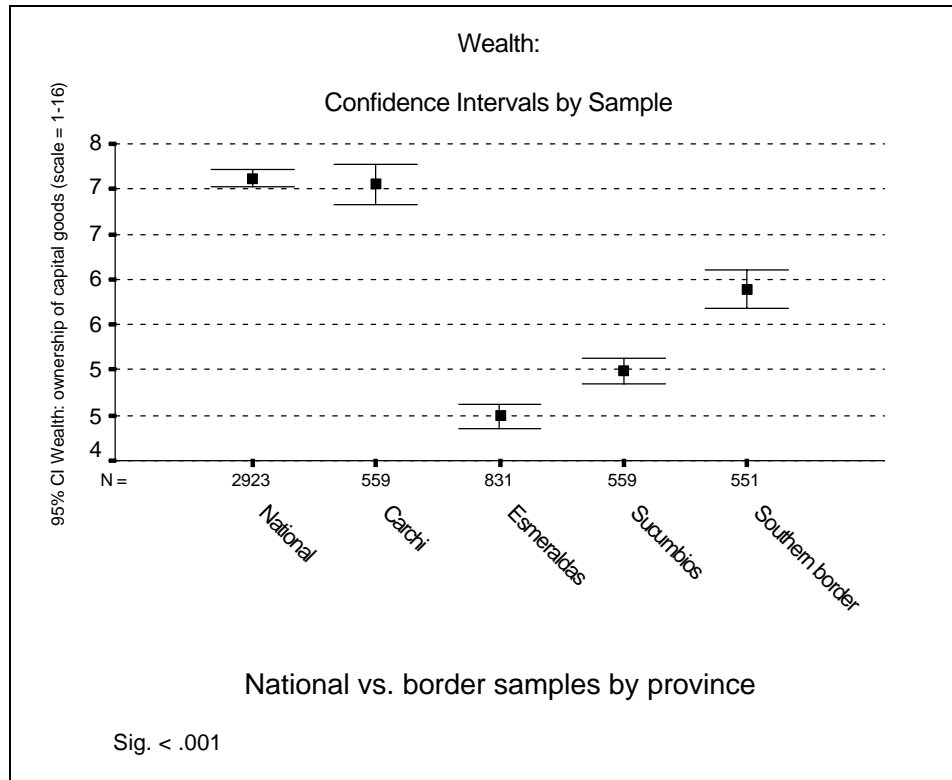


Figure 10 Wealth: national vs. border samples by province

I. Poverty

A series of items on poverty were included in the questionnaire but not analyzed in the main report. A brief summary of those results is included here.

We asked (Pov1) if the respondent had to remove a child from school because of the economic crisis. The results are shown in Figure 11 below. The major difference is between Esmeraldas and the rest of the country.

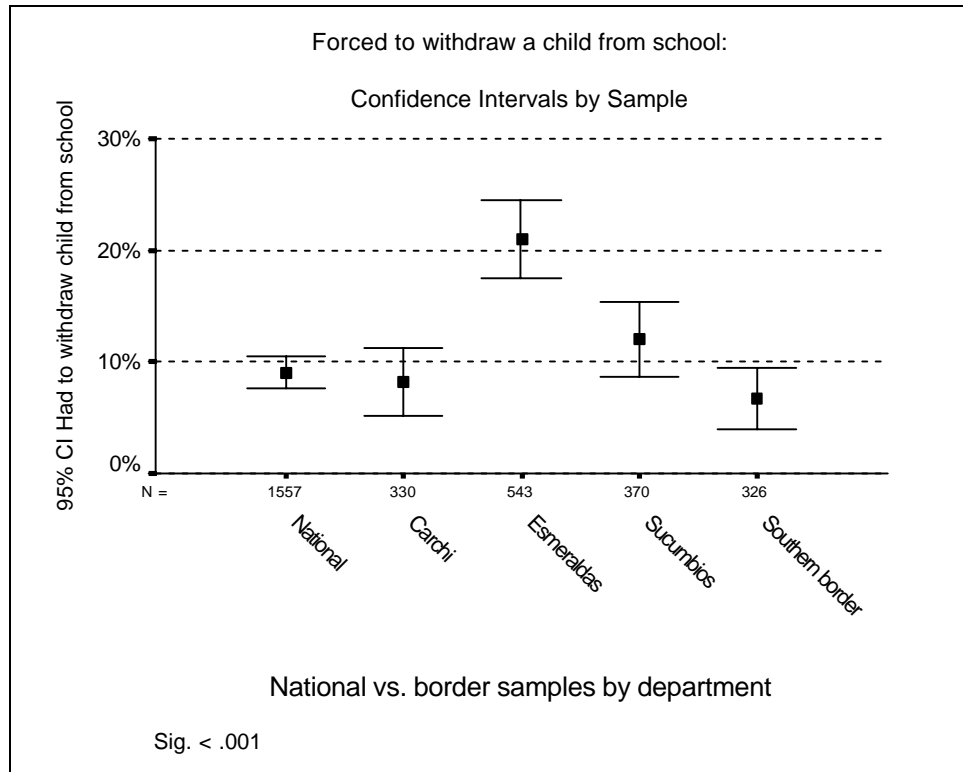


Figure 11 Forced to withdraw a child from school: confidence intervals by sample

A similar pattern emerges for the “bono solidario.” The results are shown in Figure 12 below, where it is seen that Esmeraldas is much higher than the other areas.

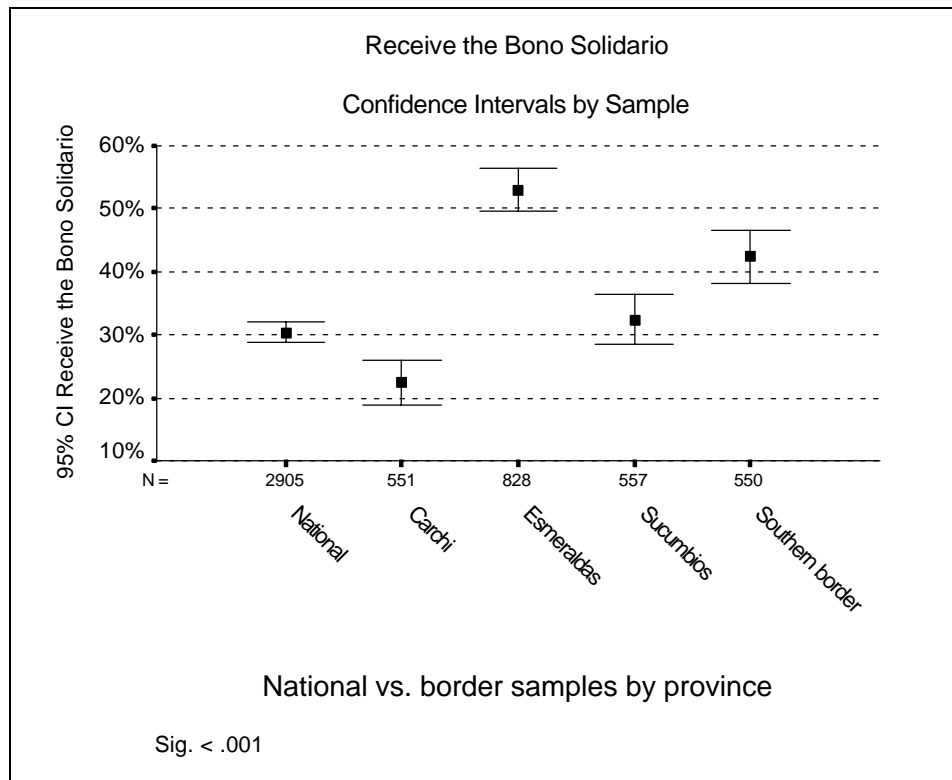


Figure 12 Receive the Bono Solidario: confidence intervals by sample

Finally, we look at patterns of receipt of the Beca Escolar, which are shown in Figure 13 below. Esmeraldas and the Southern border are especially high.

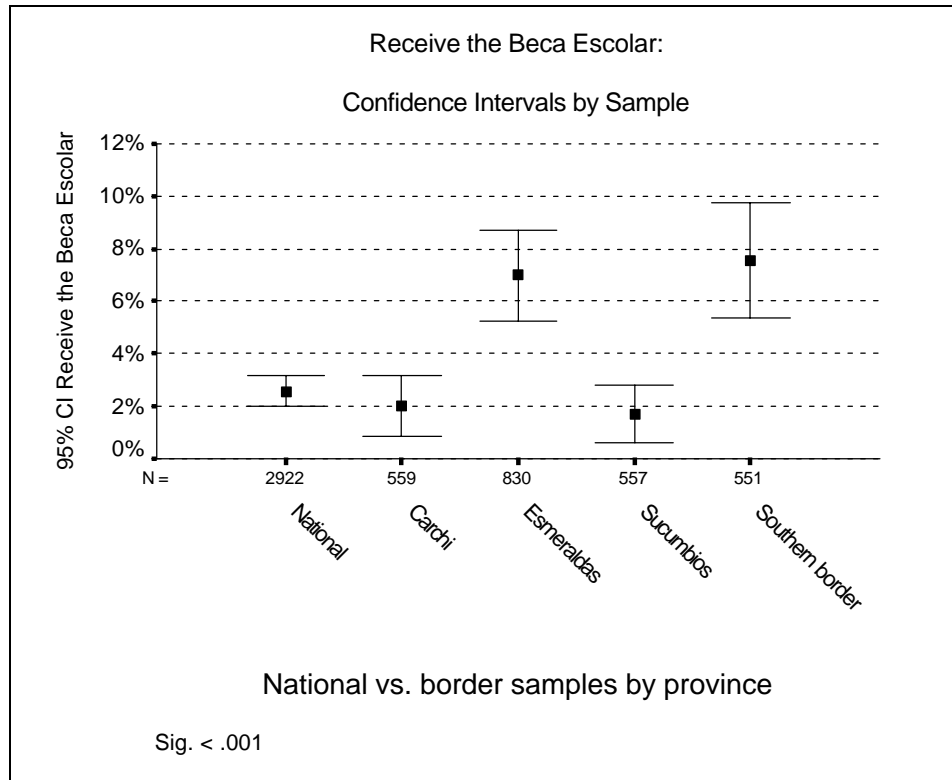


Figure 13 Receive the Beca Escolar: confidence intervals by sample

Local Government

II. Perceived Problems

The full report contained an extensive analysis of participation in and attitudes toward local government. In this special report, the focus will only be on the highlights, leaving to future analysis a more detailed look after USAID has had the opportunity to absorb these findings. The first issue to examine is the perception of problems at the national level, so that we can then contrast those to problems at the local level. The results are shown in Table 2 below. The results shown are impossible to summarize in this text, since the reader will be interested in a particular problem (crime, drugs, unemployment). As a result, this table is presented without comment.

Table 2 Most serious problem faced by country

In your opinion, What is the most severe problem being faced by your country? *
National vs. border samples by department Crosstabulation

% within National vs. border samples by department

		National vs. border samples by department					Total
		National	Carchi	Esmeraldas	Sucumbios	Southern border	
In your opinion, What is the most severe problem being faced by your country?	Economic problems	44.0%	44.6%	46.5%	41.4%	37.9%	43.5%
	Inflation, high prices	3.7%	3.6%	5.0%	3.4%	5.7%	4.1%
	Unemployment	12.1%	17.1%	19.5%	14.7%	13.9%	14.2%
	Poverty	13.1%	20.4%	11.7%	15.4%	22.9%	14.9%
	Delinquency, crime, violence	4.8%	2.0%	8.2%	8.4%	.7%	5.0%
	Popular protests	.5%			.5%	.2%	.3%
	Lack of land to cultivate	.3%		1.0%	.7%	.2%	.4%
	Lack of credit	.2%	.4%	.4%	.5%		.2%
	Environmental problems	.2%	2.2%	.6%	1.3%		.6%
	Drugs	.1%		.5%	.7%		.2%
	Drug trafficking	.4%	.5%	.2%	1.1%	.2%	.4%
	Corruption	11.5%	4.9%	2.6%	5.7%	11.7%	8.9%
	Gangs, problematic youth	.3%		1.0%	.2%	.4%	.4%
	Bad government	4.2%	2.2%	.7%	2.7%	2.2%	3.1%
	Migration	.6%		.5%	1.1%	1.3%	.6%
	War against terrorism	2.1%	1.3%	1.7%	1.3%	1.6%	1.8%
	Dollarization	.9%	.7%	.1%		.7%	.7%
	Lack of education	.1%			.2%	.2%	.1%
	External Debt	.0%			.2%		.0%
	Closure of banks	.1%					.0%
	Lack of energy sources	.0%					.0%
	Foreign Commerce	.0%					.0%
	Lack of justice	.1%					.1%
	Others	.5%	.2%		.5%	.2%	.4%
Total		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

We now turn to local problems, the result of which are shown in Table 3 below. These results also are complex, but it is worth noting that the problem of water supply for Esmeraldas is clearly much greater than in other areas. These differences suggest a foreign assistance strategy that should be very carefully tailored since “one size” clearly does not “fit all.”

Table 3 Most serious local problem

		National vs. border samples by department				
		National	Esmeraldas	Sucumbios	Carchi	Southern border
		Col %	Col %	Col %	Col %	Col %
In your opinion, what is the biggest problem of your municipality?	Lack of water	10.9%	49.7%	14.1%	26.9%	16.7%
	Road maintenance	14.4%	15.1%	26.2%	15.3%	19.0%
	Bad administration	15.0%	8.8%	15.6%	5.1%	14.6%
	Lack of services	11.2%	9.0%	7.5%	6.9%	17.7%
	Lack of security, delinquency	13.4%	5.1%	12.6%	8.7%	1.7%
	The economic situation	10.5%	4.7%	14.4%	13.8%	9.5%
	Lack of funds, help	9.9%	3.2%	4.6%	16.7%	15.6%
	None	5.1%	2.0%	.5%	2.9%	2.3%
	Clean up of public places	3.8%	1.2%	1.2%	1.6%	.5%
	Lack of environmental care	1.8%	.9%	1.3%	1.0%	.5%
	Others	1.7%	.2%	1.1%	1.0%	.7%
	Corruption	1.3%		.5%		
	High taxes	.5%				
	Lack of machinery and equipment	.2%		.2%		1.2%
	Abuse of authority of Mayor	.3%		.2%		

III. Satisfaction with Local Government

Satisfaction with the services provided with local government vary significantly, but the differences are not very large in absolute terms. The results are shown in Figure 14 below. As can be seen, of the border provinces, only Carchi matches the national averages, while all the others are significantly lower, especially Sucumbios.

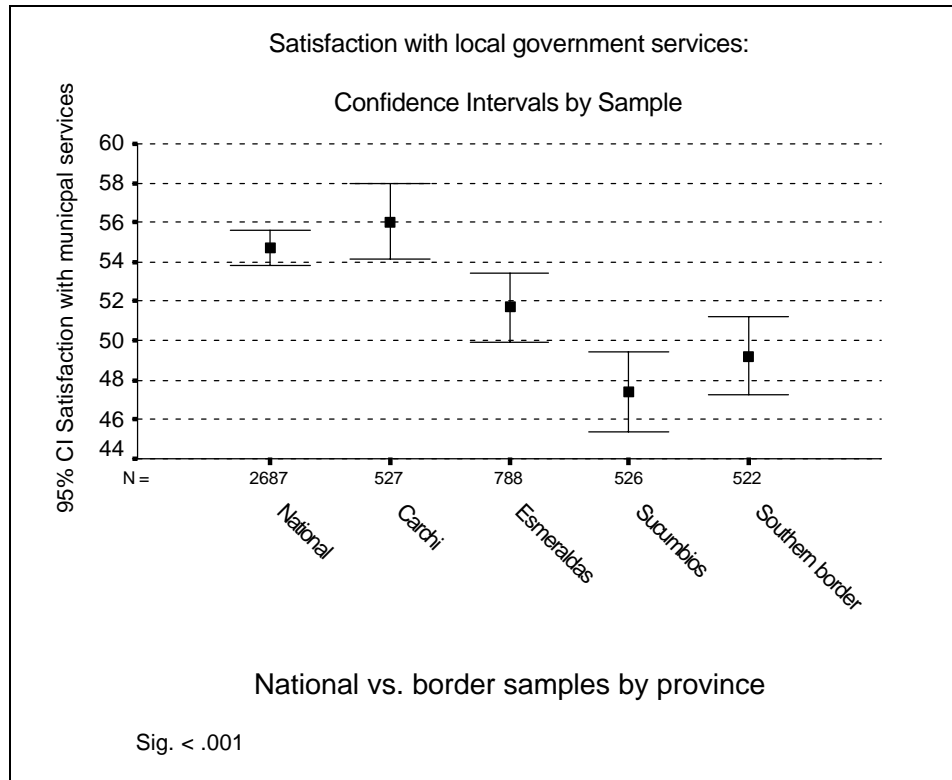


Figure 14 Satisfaction with local government services: confidence intervals by sample

IV. Participation in Local government

In the survey we asked about participation in local government meetings during the year prior to the interview. The results are shown in Figure 15 below. There is little regional variation except for Esmeraldas, where such participation is much higher than elsewhere.

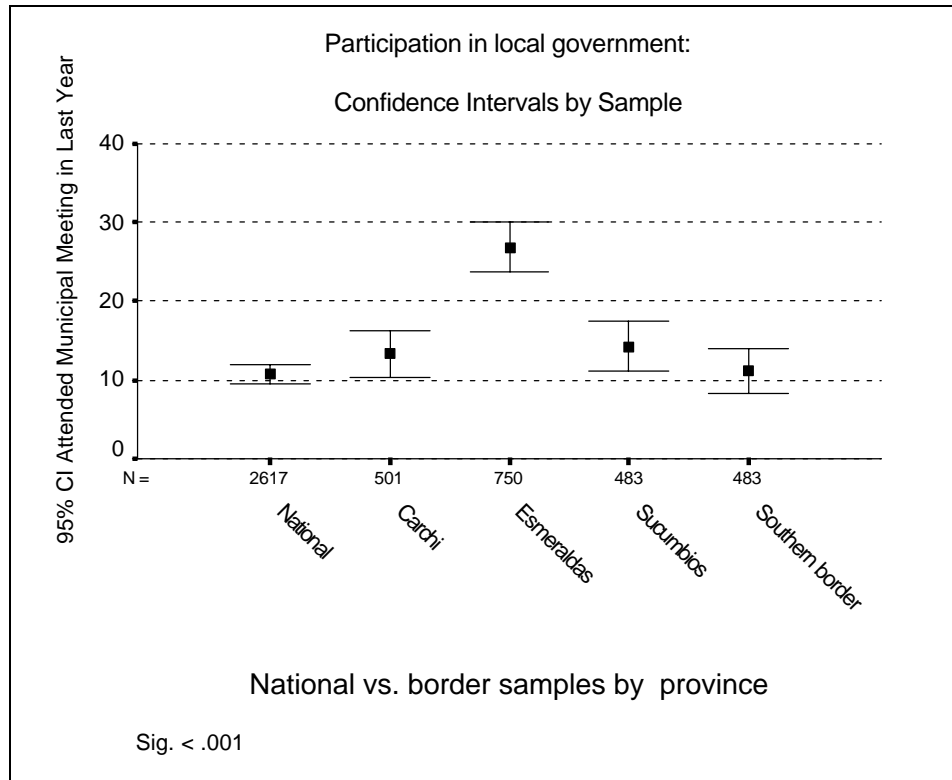


Figure 15 Participation in local government: confidence intervals by sample

Why is this so? What factors are responsible for this? When we control for age, income, wealth and education, the results are as they appear in Figure 16 below. As can be seen, even with these controls, Esmeraldas has higher participation than the other areas. These findings require a careful look at Esmeraldas since it is a region that is clearly distinctive not only within the Northern border, but in the nation as a whole, at least in terms of municipal participation.

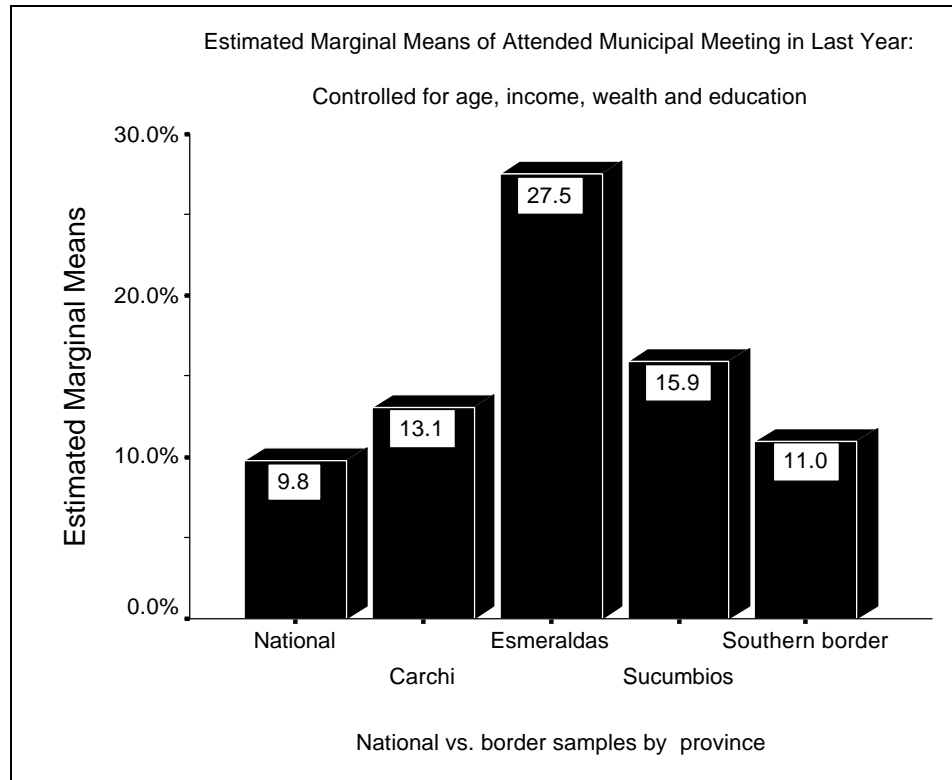


Figure 16 Estimated marginal means of attended municipal meeting in last year: controlled for age, income, wealth and education

In terms of demand-making, Esmeraldas is still high, but the difference with other areas is not as great. The results are shown in Figure 17 below. As can be seen, Esmeraldas is higher than the nation and higher than Carchi, but not significantly higher than Sucumbios or the Southern border.

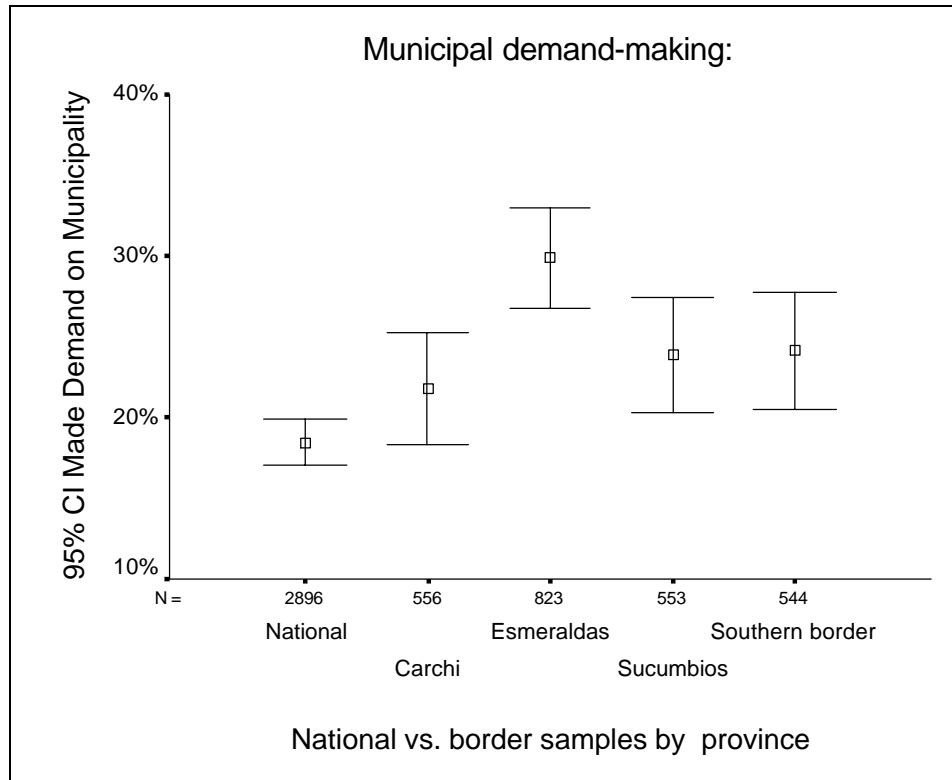


Figure 17 Municipal demand-making

Finally, we examine participation in the budget-making process. Once again, Esmeraldas is the standout, as is shown in Figure 18 below.

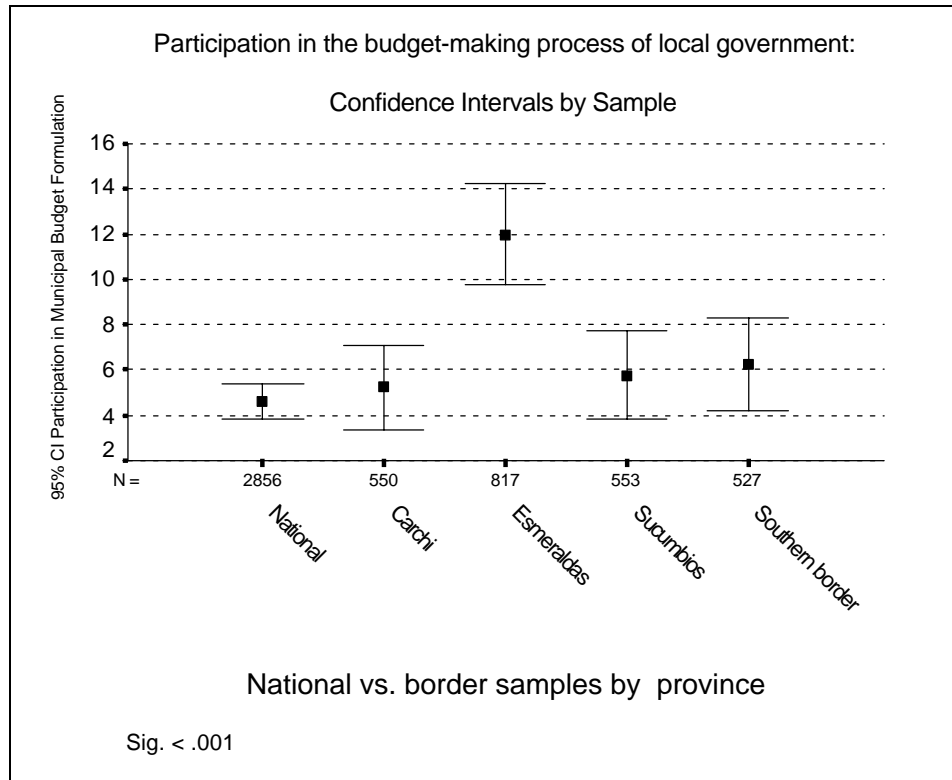


Figure 18 Participation in the budget-making process of local government: confidence intervals by sample

Support for Stable Democracy

A central theme of the larger study is support for stable democracy. That focus is carried out by examining the extent to which Ecuadorians both believe in the legitimacy of their system of government while also being tolerant of the civil liberties of citizens with whom that may disagree. In this section we first examine legitimacy, then tolerance and finally the combination of the two.

V. System Support

A comparison of levels of system support for the nation as a whole and the border regions is carried out and is displayed in Figure 19 below. As can be seen, all of the border areas have significantly *higher* levels of support than for the nation as a whole.

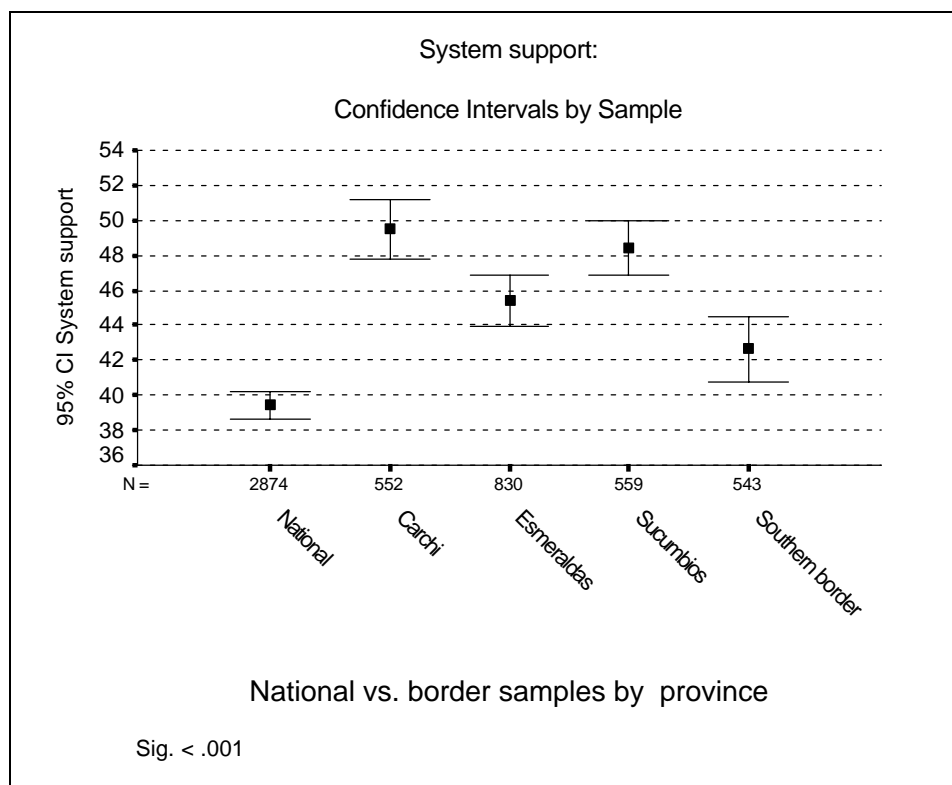


Figure 19 System support: Confidence intervals by sample

This finding is an important one. It suggests that the notions that the border zones are somehow, by definition, more politically alienated than the rest of the country is not supported by the data. It is important to keep in mind that the overall levels of system support for Ecuador are not high, but in these border zones, especially in the North, support is notably higher. Is this an artifact of socio-economic and demographic differences between these zones and the rest of the country? The answer is found in Figure 20 below. As can be seen, only minor variations occur, indicating that the border zones do have higher system support.

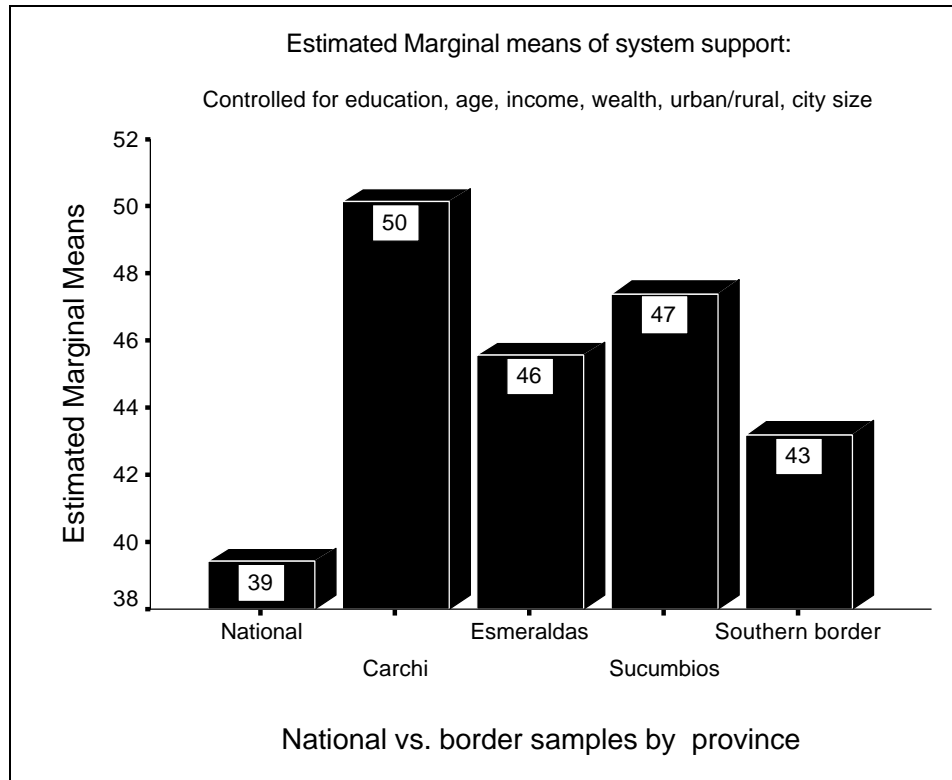


Figure 20 Estimated marginal means of system support: controlled for education, age, income, wealth, urban/rural, and city size

It should not be assumed from this overall evaluation of system support, however, that those in the border regions are more supportive of all of the institutions of government. Consider support for local government. We already saw this pattern in the context of the question on satisfaction with local government. In this item (B32 in the survey), where we are able to compare support for the municipality to other institutions with a series of questions formatted identically, the same pattern emerges. The results are shown in Figure 21 below. We see that Carchi has higher support scores for local government, but the other border zones are slightly lower or no different from the nation as a whole.

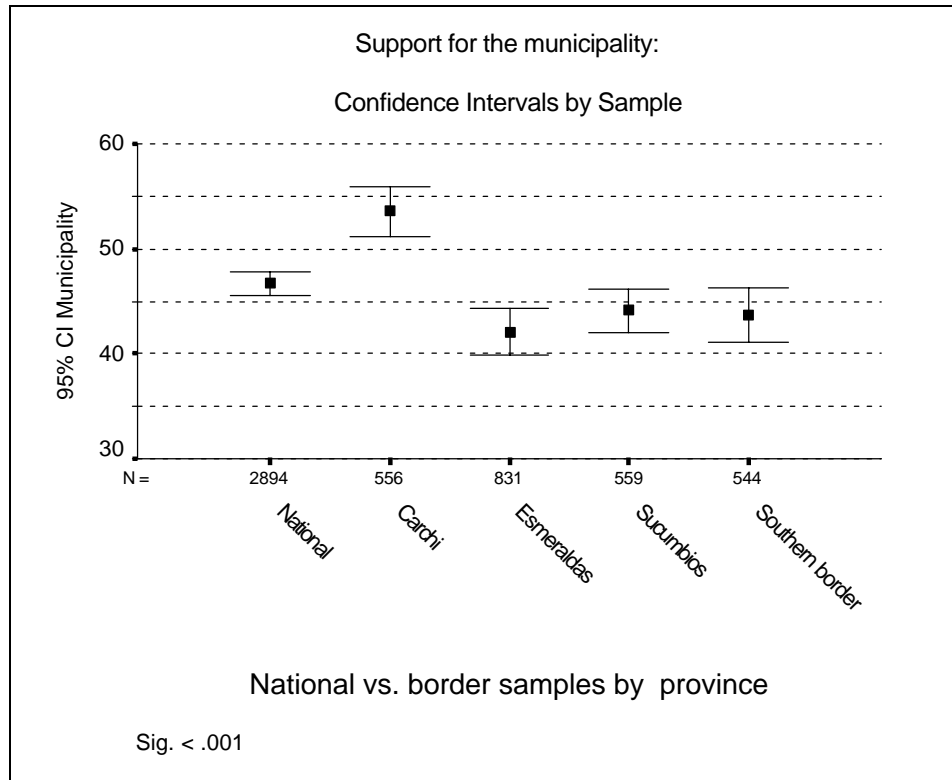


Figure 21 Support for the municipality: confidence intervals by sample

The full series of items is too long to present in separate graphs, so all of the system support items are summarized in Table 4 below. A number of observations can be made. First, it is notable how much higher the belief in fair trials is in Carchi, Esmeraldas and, especially, Sucumbios than in the nation as a whole. Pride in the political system is also higher in the Northern border than in the nation. There is a much more complex pattern, however, when it comes to the armed forces. While in the nation as a whole the average is 63, on a 0-100 scale, in Carchi it is 72, but in Esmeraldas and Sucumbios it is much lower than the nation (58 and 51 respectively). This suggests, once again, the Northern zone should not be considered to be homogeneous. It is also of note that pride in being an Ecuadorian is much lower in Esmeraldas than the nation as a whole. Interpersonal trust (trust in relatives, friends and neighbors), presumably the basis of a strong civil society, does not vary much in the North from the patterns in the nation as a whole.

Table 4 System support: full range of items

	National vs. border samples by province				
	National	Carchi	Esmeraldas	Sucumbios	Southern border
	Mean	Mean	Mean	Mean	Mean
Courts	33.1	47.3	41.3	50.4	38.0
Institutions	48.8	57.8	49.4	53.9	50.6
Basic Rights	36.2	46.0	44.3	45.5	40.0
Pride in Political System	37.1	47.5	44.9	46.9	42.3
Support	41.8	49.2	47.3	45.3	41.6
Election Court	34.6	46.7	41.8	43.0	39.4
Armed Forces	62.8	71.6	58.1	51.0	54.4
Congress	24.7	32.0	39.4	38.9	26.5
National Government	30.5	34.1	40.2	39.4	30.2
Fiscalía	30.1	39.0	38.4	40.0	32.1
Prosecutor	30.8	38.0	39.1	39.9	33.5
Public Defender	46.5	58.6	52.9	47.6	42.9
Police	43.7	54.8	47.5	36.3	39.6
Comptroller General	35.4	44.5	43.4	40.7	35.5
Catholic Church	67.5	76.5	68.5	70.8	69.8
Parties	21.4	26.8	34.3	32.8	25.8
Supreme Court	29.0	40.3	39.2	37.0	33.3
Municipality	46.7	53.5	42.1	44.1	43.7
Prov. Prefecture	40.0	49.7	40.3	41.0	37.8
Free Elections	47.7	54.4	48.2	41.6	51.3
Mass Media	58.7	63.4	52.4	51.4	54.4
Unions	34.9	44.3	36.3	40.4	38.4
Chambers of Commerce	39.5	41.6	39.2	47.2	38.5
Indigenous movements	46.8	49.9	50.2	52.4	48.1
Junta Parroquial	46.9	53.6	48.6	49.9	48.7
Internal Revenue	37.9	46.0	39.7	42.0	36.1
Pride in being Ecuadorian	88.5	92.7	78.0	80.1	85.5
Constitutional Court	39.8	49.9	41.2	44.1	39.6
Anti-Corruption Commission	37.7	47.0	41.5	39.9	36.7
Relatives	75.2	77.0	67.0	72.3	74.4
Friends	58.9	58.3	58.7	64.4	67.5
Neighbors	52.0	53.5	54.6	57.9	63.1
People of neighborhood	50.5	50.8	52.6	52.4	61.8

VI. Political Tolerance

We now turn to political tolerance, as measured by the 4-item scale from items D1-D4. The results are shown in Figure 22 below. There is little variation from the national pattern except in Sucumbios, where tolerance is lower.

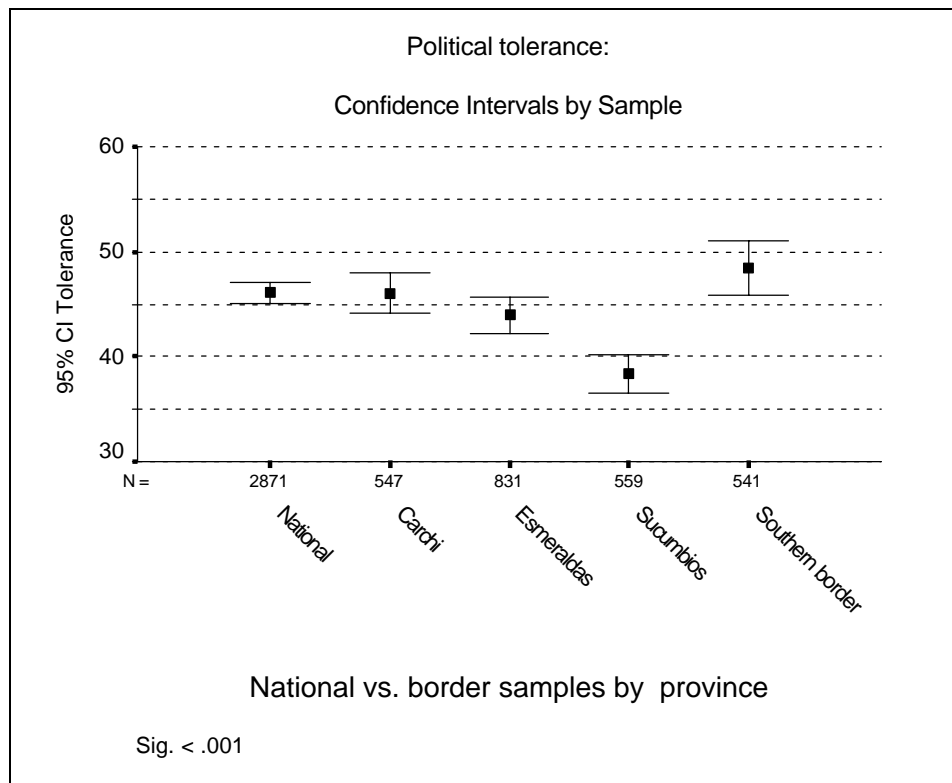


Figure 22 Political tolerance: confidence intervals by sample

VII. Support for Democracy

We now combine system support and tolerance to produce the percentage of the respondents who have values that are supportive of stable democracy. The results are shown in Figure 23 below. As we can see, Carchi and the Southern Border are somewhat higher than the national average, whereas the other areas of the North are not significantly different from the rest of the nation.

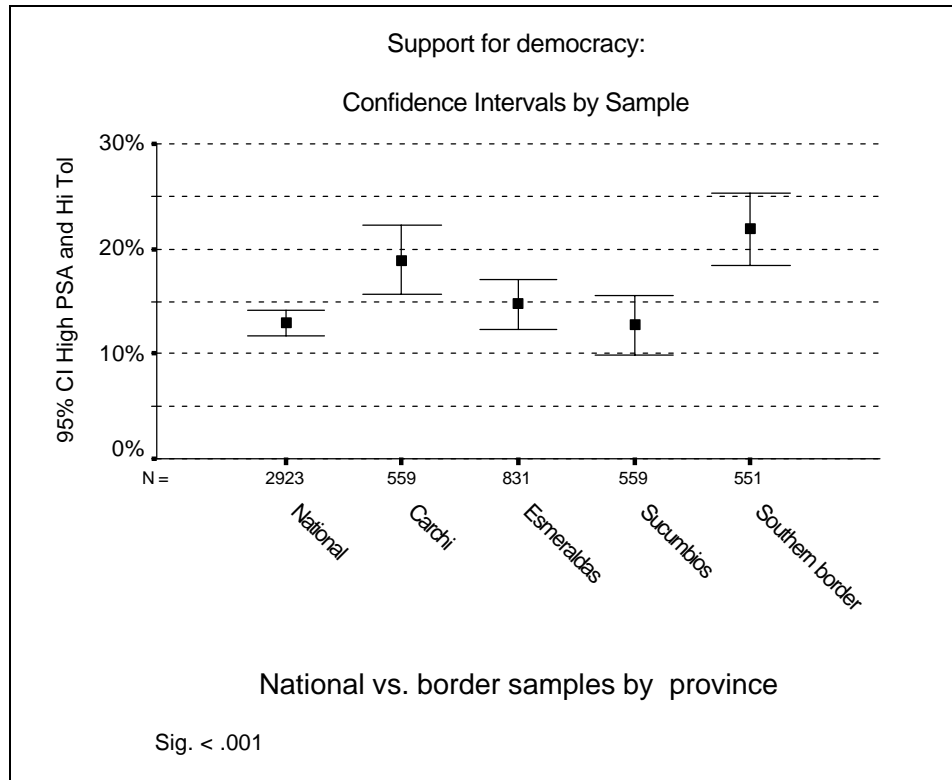


Figure 23 Support for democracy: confidence intervals by sample

Anti-Democratic Values

In the main report, an extensive analysis was conducted on the percentage of Ecuadorians who would justify a coup under various circumstances. There it was found that the percentage of coup supporters was quite high in absolute and comparative terms. The overall index results are shown in Figure 24 below. As we can see, justification for a coup is lower in Carchi and the Southern border as compared to the nation as a whole.

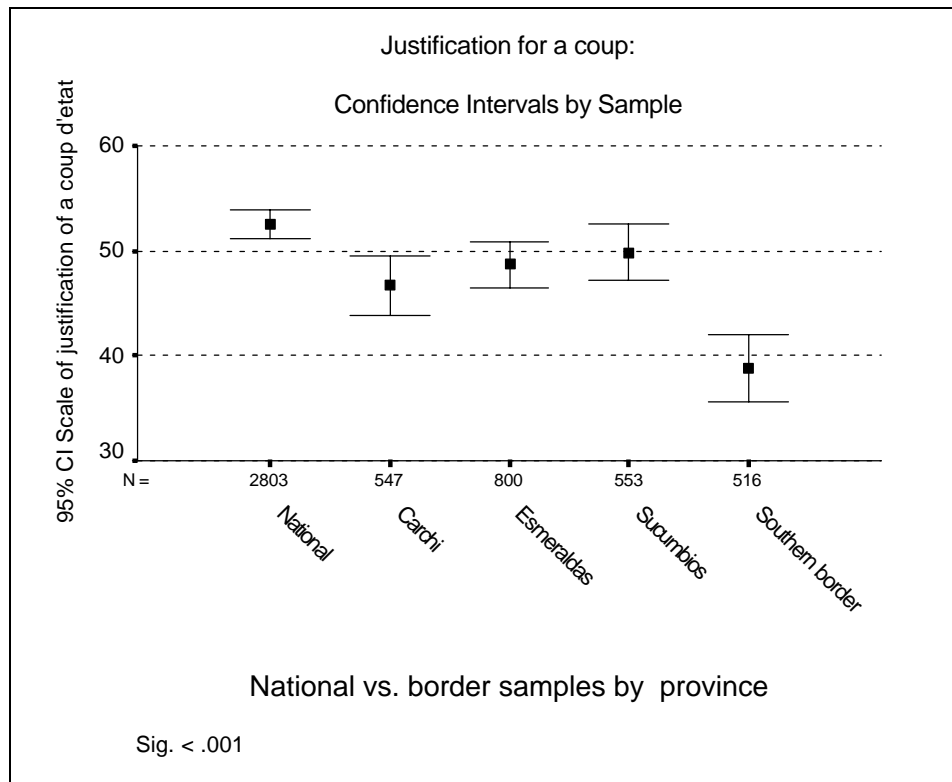


Figure 24 Justification for a coup: confidence intervals by sample

In the border regions, the detailed patterns are shown in Table 5 below. Overall, the pattern is similar in the North than to what it is nation-wide. For example, high crime justifies a coup for 72% of the national population and between 66 and 69% of the Northern border. It is notable that the Southern border has much lower coup support on almost all questions in this series.

Table 5 Conditions that would justify a coup

	National vs. border samples by province				
	National	Carchi	Esmeraldas	Sucumbios	Southern border
	Mean	Mean	Mean	Mean	Mean
High unemployment	43.6	36.9	42.2	48.6	33.3
Social protests	49.2	45.6	38.6	46.9	36.2
Elect extreme left	32.1	24.4	31.5	27.2	18.6
Elect extreme right	30.3	19.9	32.7	26.0	21.4
High crime	72.1	68.4	69.0	65.6	57.8
Social disorder	64.9	64.0	58.9	61.7	49.5
High inflation	51.9	50.2	52.4	53.4	38.2
Corruption	67.0	63.2	63.9	65.9	51.8

The Rule of Law

The reader will note that the series of items on the rule of law were reported upon in the section on system support (see Table 4, p. 67). There is no need to repeat those breakdowns here. What we can show are differences in crime victimization. The results are found in Figure 25 below. We see that Carchi and the Southern border have a lower level of victimization than the rest of the country, and Sucumbios is also significantly below that rate. Only Esmeraldas has a rate nearly equal to the national average.

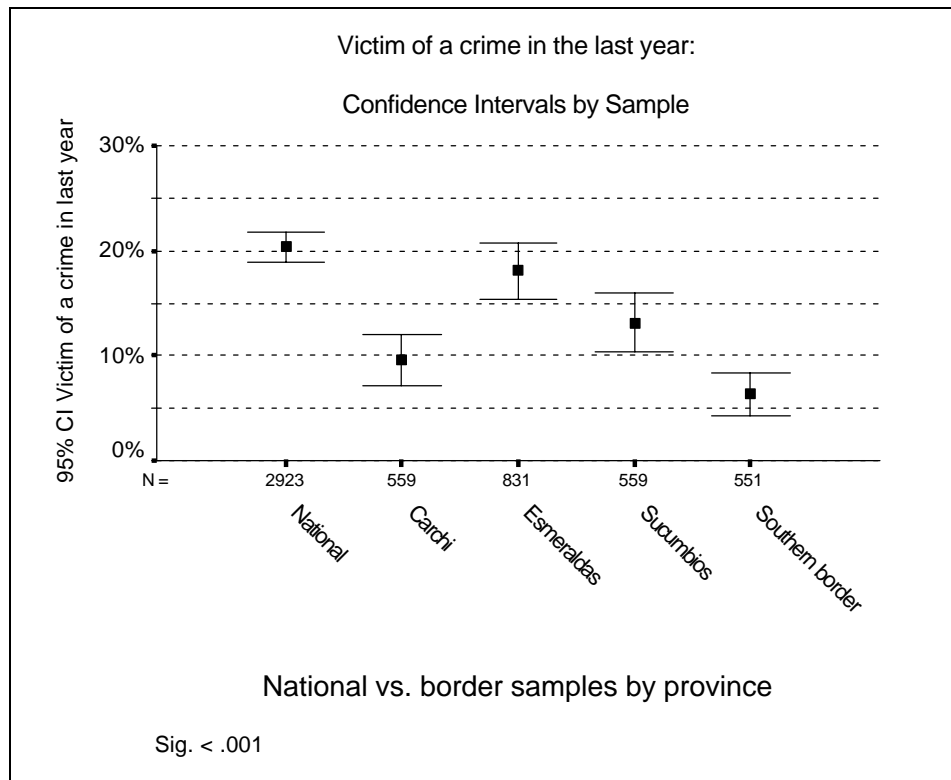


Figure 25 Victim of a crime in the last year: confidence intervals by sample

Corruption and Democracy

VIII. Perception of Corruption

We found that the perception of corruption was high in Ecuador. The comparisons with the border regions are shown in Figure 26 below. As can be seen, there is little variation, with the exception of Esmeraldas, which has a somewhat better perception of the level of corruption than do the respondents at the national level.

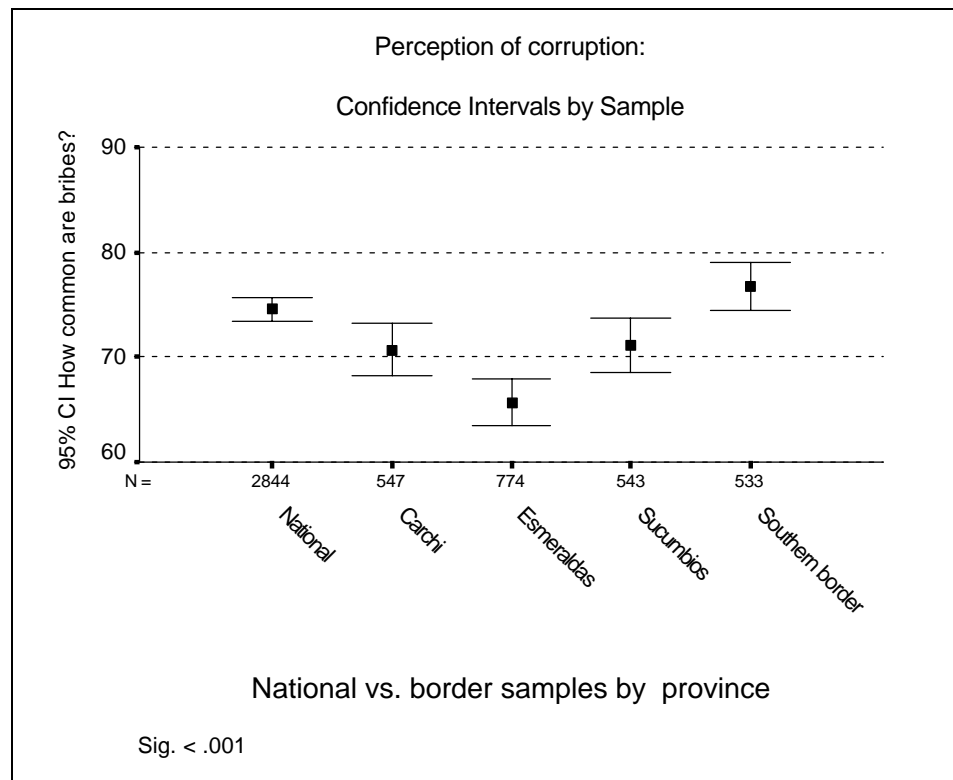


Figure 26 Perception of corruption: confidence intervals by sample

IX. Corruption Victimization

The results of the questions measuring actual corruption victimization experience are shown in Figure 27 below. As can be seen, perception and reality do not go entirely hand-in-hand. Whereas Esmeraldas was a region of lower perception of corruption, the total level of corruption experienced by citizens there is higher than in other regions. Carchi is especially low and the Southern border even lower.

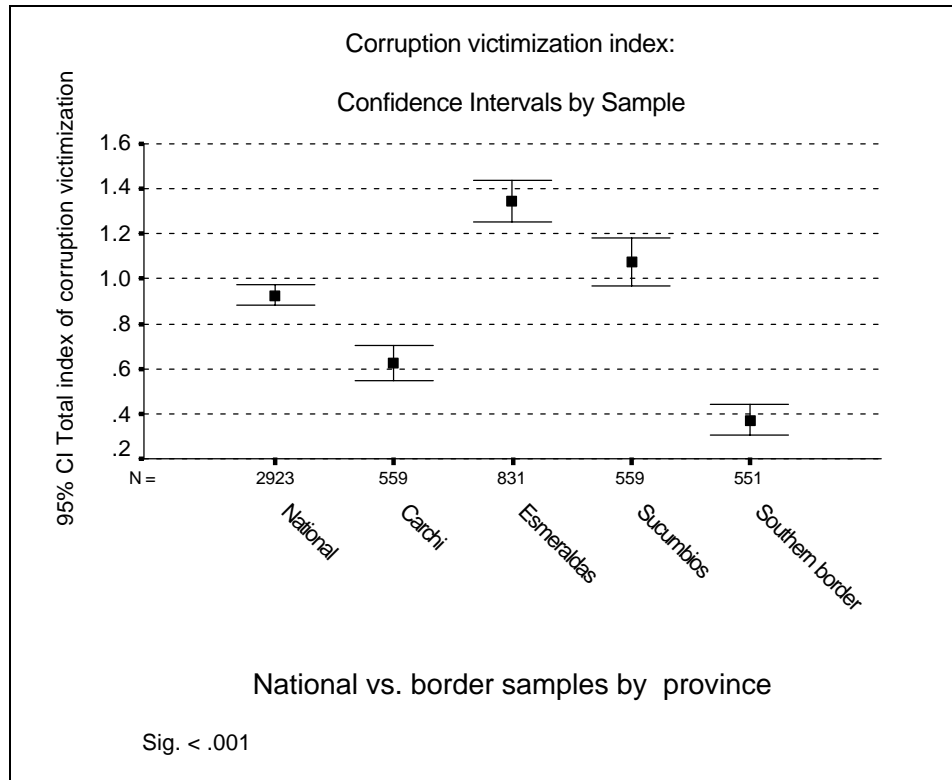


Figure 27 Corruption victimization index: confidence intervals by sample

Civil Society Participation

The last section of data to be analyzed is civil society participation. In the full report we developed an index of communal participation, the results of which are shown in Figure 28 below. Whereas Carchi and the Southern border follow the national pattern, there is much higher communal participation in Esmeraldas and Sucumbios.

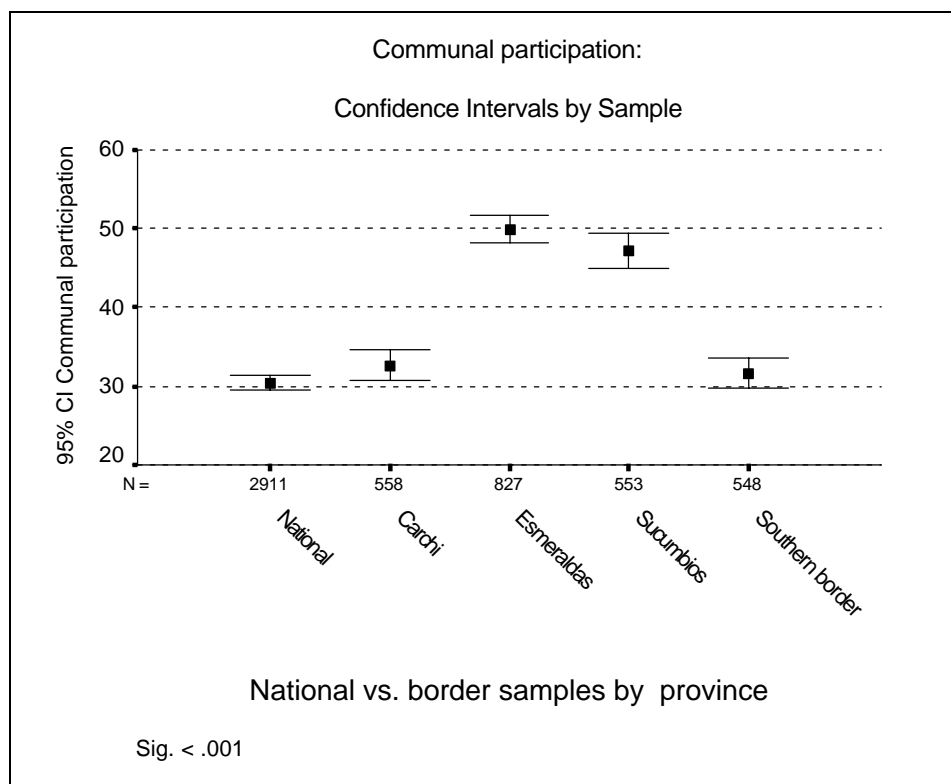


Figure 28 Communal participation: confidence intervals by sample

Professional participation results are shown in Figure 29 below. Here it is Esmeraldas that is the standout, while the Southern border is below the national average.

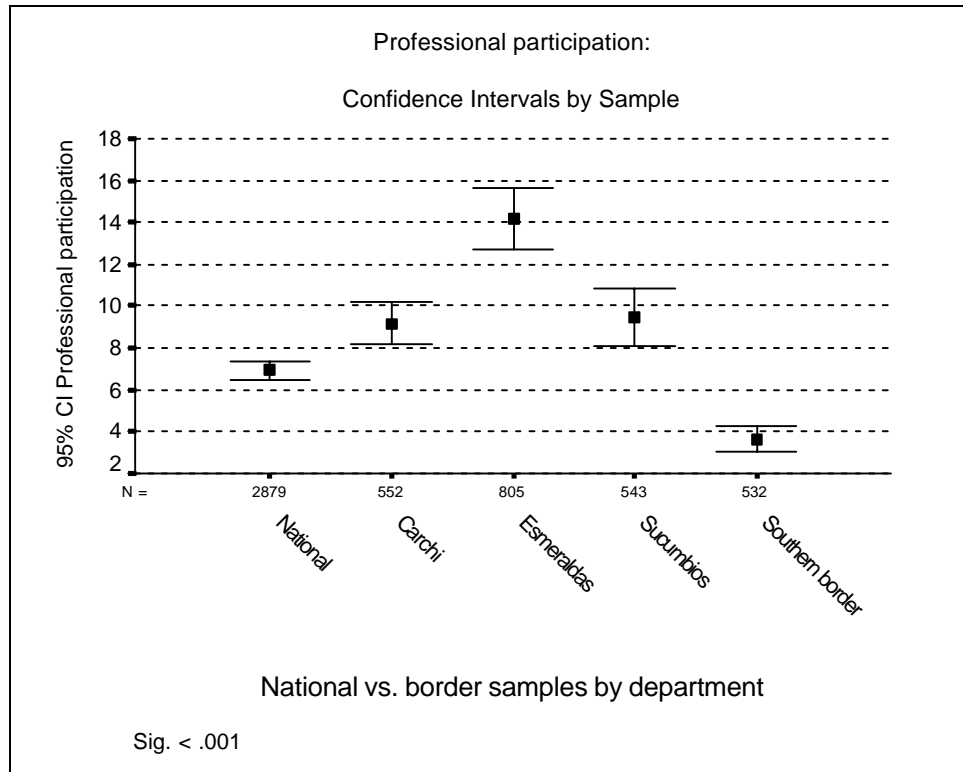


Figure 29 Professional participation: confidence intervals by sample

Conclusions

This special report has compared the attitudes and behaviors of Ecuadorians in the area of democracy to those of residents in the Northern and Southern border regions. A wide variety of differences and similarities have been shown. All of this information needs to be examined in the context of specific international assistance initiatives.

ANNEX C
ECUADOR NORTHERN BORDER
CONCEPT PAPER
RURAL COMPETITIVENESS FUND

BACKGROUND

The Mission is developing a new ACI, INC-funded strategy aimed at constraining the growth of the Andean coca/cocaine problem into Ecuador. As part of this strategy, the Mission is considering support for strengthening a general context of licit economic development and for encouraging licit economic alternatives to coca, especially in the country's northern border ("NB"). While the focus would be on supporting Ecuador's successful efforts to constrain coca cultivation, this is neither a crop substitution nor a traditional alternative development activity.

To inform the development of this strategy, the Mission has completed an assessment of rural economic opportunities in the NB, with a focus on the provinces of Esmeraldas, Carchi and Sucumbios. Some of the principle findings from this exercise include:

1. Rural poverty is a serious problem in the NB – it is estimated that well over 70% of NB citizens live at or below the poverty line and over 80% identify unemployment, poverty, and economic underdevelopment as their top problems (Univ of Pittsburgh, Nov 2001);
2. Coca cultivation, while currently very limited (Gersony, Jan – Mar 2002), offers a lucrative alternative to poverty. Furthermore, when Ecuadorian labor migrates to Colombia during coca harvest season seeking higher wages, they pick up growing and processing technologies.
3. NB provinces offer real productive possibilities, with a wide variety of agricultural options ranging from the tropics of Esmeraldas, to the high valleys of Carchi, and to the jungle/amazonia of Sucumbios (DAI, Rapid Rural Appraisal, Jan-Feb 2002);
4. The number one problem for small and medium farmers in these provinces is finding stable markets for their products (DAI). Generally, increasing production, improving quality, accessing credit, and securing agricultural inputs are function of market access. If the market dictates these other requirements, they must be attended to;
5. In certain established sectors in the NB, including fresh and frozen vegetables, cacao, *palmito*, and processed coffee, real and potential linkages between domestic and international markets, agricultural processors, Ecuadorian commercial buyers, and small and medium producers exist. Assistance to strengthen these linkages could be effective in creating jobs, increasing incomes, and generally strengthening a context of licit economic development.
6. In each of these sectors, the Mission has received requests for assistance to strengthen a particular and specific aspect of the production-commercialization-market chain, to ensure that the entire process works more efficiently;
7. NB economic development efforts to date have not had much success because the challenges are complex, and NGO-driven efforts have been particularly disappointing (Gersony). Additionally, top-down, institutionally complex, crop substitution efforts are difficult and long-term, and economic development must be accompanied by interventions to strengthen security (GAO, 2001).

FUND PARAMETERS & CRITERIA

A grant fund to help producers, buyers, processors, and firms overcome specific and concrete bottlenecks to increasing NB product sales and meeting domestic and international demand, could be a useful mechanism to encourage a general context of licit economic development in the NB. Grants would help strengthen linkages between small and medium producers, intermediaries, ag processors, and domestic and international buyers, and thereby encourage greater licit economic development in the NB. On its own, the fund would not be enough to spur a general context of licit economic development, but could serve as a useful complement to other USAID efforts (productive infrastructure and land titling), the efforts of other donors (especially IDB support to diversify small coffee farms), the GOE, and the traditional private sector.

The fund would award grants through a competitive process, based on proposals submitted from NB rural enterprises (see further definition below). Grants would complement well-established sectors where private money predominates; where there is a successful track record of production for secure markets; and where there are linkages between farmers, intermediaries, processors, and markets. The emphasis on private sector experience, know-how, and investment will help ensure success and sustainability. The fund's bottom-up approach would take USAID out of the business of building rural enterprises, and would put the onus of identifying successful projects on those who best know the constraints and opportunities for successful, market-driven rural enterprises.

The value added by the grant fund would come from making funds available to overcome constraints for which private money is not available. Grants might help to: overcome socio-cultural barriers to producers and industrialists working collaboratively for shared profit; strengthen producers associations; determine the feasibility of riskier (but potentially profitable) investments; and bring investments to more geographically remote (but accessible) places.

Successful proposals to the fund would identify a specific constraint along the production-commercialization-processing-market chain for which private funds would not be readily available and that a grant could help overcome. Successful proposals would need to clearly show how overcoming that constraint would contribute to increased employment and/or incomes in the given sector. Successful proposals would need to clearly show how the grant would help ensure market access, or in cases where stable markets for the product exist, demonstrate the manner in which the project helps meet the market requirements and standards. Successful proposals would also need to show a collaborative approach between the respective actors along the farm to market chain, e.g. an approach that builds alliances along this chain, between the poor and the non-poor, through mutual efforts to increase the wealth of all actors. Proposals will be driven by the enlightened self-interest of profitability in a market environment, and not by charitable or social incentives. In that sense, proposals would need to show how the grant requested complements real or intended private investments along the farm to market chain.

Applicants to the fund might include producers associations, not-for-profit organizations with sustainable business activities; and/or organizations representing alliances between producers, buyers, and investors. U.S. and Ecuadorian private sector groups would be able to compete, but would need to clearly show how the grant would help them strengthen linkages with, increase profits for, and/or increase employment among small and medium producers. Because the fund will strengthen public-private and non-profit alliances, is market-driven, and links the poor with the non-poor, it would be fully aligned with the precepts of USAID's Global Development Alliance and the LAC rural prosperity initiative.

The kinds of projects that could be supported by the fund include:

- on-farm TA to increase production to satisfy existing market demand (note that this TA could be accessed by a partnership between the grant applicant and a TA provider, or could be sub-contracted by the grant recipient);
- TA to help producers meet phytosanitary requirements, quality levels, or certification standards of existing niche markets;
- Services to help package projects for the private credit market, and effectively broker the project-specific demand for and supply of credit;
- Promotion of exports in foreign markets, to help increase sales, incomes, and jobs.
- Studies to inform GOE negotiators about barriers to free trade in specific productive sectors;
- Prefeasibility studies and studies to lower risk for potentially profitable projects;
- studies on market conditions and the implications for NB producers;
- market price information systems to help producers understand the variations and complexities of world prices for their products and the most profitable selling seasons and markets;
- TA for post-harvest product handling and storage;
- other

By way of example, a grant from the fund might support increasing the productive capacity of small and medium sized cacao farmers and value-added chocolate processing in the Amazonia. In this particular case, the farm-to-processing plant-to-international buyer (Whole Foods International) chain exists, but there is a significant gap between cacao and chocolate supply and Whole Foods demand. Strengthening this farm-to-market chain by increasing cacao and chocolate production holds promise for increasing income and employment for a significant number of rural families living in Ecuador's jungle region bordering Colombia.

One might ask “why not let the private market take care of this”? The first answer is that the fund would work in areas for which private money is not readily available. Similarly, if constraining the Andean coca/cocaine economy into Ecuador is really a high USG foreign policy priority, then there isn't time to wait for the market to work its magic. Or said another way, the relatively small productive subsidies offered by these grants represent the cost of pursuing this foreign policy priority.

Additionally, this is not a loan fund, much less a micro-credit fund for the small cash-flow or rudimentary investment needs of individual producers. It is a grant fund to support the collective efforts of key actors, in proven sectors, where significant private money has been put at stake, and where significant domestic and international market potential exists. Given that this is its nature, the grant fund will not be competing with any NB micro-credit funds and competition with subsidized credit is therefore not an issue.

MANAGEMENT & IMPLEMENTATION OF THE FUND

Successful management of the fund would require:

- a strong technical capacity to design solid selection criteria, assist weaker organizations with good ideas to develop competitive proposals, review and identify bankable proposals, oversee the technical implementation of projects, troubleshoot implementation problems in collaboration with counterparts, and measure success/impact; and

- a strong administrative capacity to advertise the fund, establish procedures for submitting and reviewing proposals, and award, administer, and close out grants.

There are several implementation options, including:

1. Implementing the fund in-house, with USAID USDH and PSC resources for technical and administrative management. This option would probably be beyond the management capacity of USAID/E and our support staff in Lima;
2. Implementing the fund through a cooperative agreement to a local organization (several existing Ecuadorian organizations that might be interested in bidding on such an RFA might include FUNDAGRO, IICA, Zamorano Alumnae, etc). This would be a lower cost option but may be difficult to manage in the event that the local organization has an agenda that is not fully aligned with USG objectives;
3. Implementing the fund through a contract with a US firm (which could be an IQC for faster start-up). This would allow us to access expert technical and administrative services (these firms know USAID sub-grant procedures well) to manage the fund. The IQC route would be quicker but more expensive. The contract mechanism would also afford USAID greater control over the fund, to ensure that it meets US objectives.
4. Implementing the fund through a USDA PASA. This is a relatively easy way to access a wide variety of strong technical and administrative staff to run the fund, from both the US public and private sectors. USDA has experience running these kinds of funds in other countries in the region.

Under options 2, 3 and 4, we could consider the possibility of locating the fund in UDENOR, as a way of getting GOE buy-in and taking advantage of UDENOR's donor coordination role to leverage other funds for the initiative.

FUNDING & TIMING

The attached draft strategy budgets offer two possible funding and timing options. Under both options, USAID would budget \$10 million for this activity. Under option 1, the USAID would obligate the first tranche of funds for this activity this FY and begin the fund in FY 03. Under the second option, USAID would obligate the first tranche during FY 03 and start work in FY 04.

NEXT STEPS

Per ADS strategy design guidance, there is enough information in this draft paper to include the fund as one of several illustrative productive activities (IR2) in the NB strategy submission to AIDW. If the Mission decides to include the fund as an illustrative activity in the strategy submission, and if AIDW approves the strategy, the next step would be to further develop the concept in a program description or scope of work (depending on the implementation mechanism selected). In developing the SOW/PD, we would assess similar initiatives undertaken in the other countries. Responsibility for final design and implementation of the fund would rest with the contractor or recipient.